

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

November 5, 2009

The Chair of the Committee, Jacob M. Monty, convened the meeting of the Audit and Compliance Committee of the University of Houston System Board of Regents, at 11:15 a.m., in the Athletics/Alumni Center, Melcher Board Room 100B, University of Houston, 3100 Cullen Boulevard, Houston, Texas, on Thursday, November 5, 2009. The following committee members were present: Jacob M. Monty, Chair; Nandita V. Berry, Vice Chair; and Welcome W. Wilson, Sr., Ex Officio. Regent Mica Mosbacher was unable to attend the meeting. Regent Jarvis V. Hollingsworth attended as a non-member of the committee.

Regent Monty stated there would be six items presented to the committee. All six items were for information only and required no committee action. The meeting was turned over to Mr. Don Guyton, Chief Audit Executive, who presented these items before the committee.

Mr. Guyton stated there was one open point from the August 11, 2009 Audit and Compliance Committee meeting. In that meeting, it was discussed that there were certain instances of non-compliance with Texas Education Code and Administrative Code as they related to construction. Regent Golden, former chair of the committee, requested that new regent orientation contain specific guidelines for regents related to this area. This topic will be included in new regent orientation in the future.

The following agenda items, for information only, were presented to the committee by Mr. Guyton:

Information Items:

1. **Internal Audit Report – Briefing Booklet - UH System**

This report contained an Internal Audit Activity Outline and Internal Audit Reports issued since the previous Audit and Compliance Committee meeting held on August 11, 2009. Seven internal audit reports had been prepared and the executive summaries of these reports were outlined. These reports addressed areas included in the Board-approved Audit Plan for FY 2009 and included a review of information security standards for UH-Clear Lake and University of Houston; the annual review of travel and entertainment expenditures of the Chancellor/President and members of the UH System Board of Regents; the annual report of non-compliance resulting from the departmental reviews conducted in the preceding fiscal year; a report on Internal Audit's review in the UH College of Liberal Arts and Social Sciences (CLASS); and a status report on their follow-up. These reports will all 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. Some of these reports contained management action plans, as well as Internal Audits' recommendations of these reports. Audit Report No. 2010-01 addressed the status of 59 action items in 21 individual audit reports. Internal Audit verified that 28 of the action items had been implemented, 25 partially implemented, and six (6) not implemented. Updated management responses were obtained on the partially implemented and not implemented action items. There were 11 high risk items in the report and five (5) of those have been implemented. The remaining six (6) high risk areas should be implemented by August 31, 2010. These items relate to the UH College of Natural Science and Mathematics administration systems; UH-Downtown's overpayment from the National Science Foundation (NSF) resulting from non-compliance with the Office of Management and Budget's Circular A-21 related to cost principles; Facilities, Planning and Construction's (FP&C) modification and implementation of policies related to construction in order to comply with the Texas Higher Education Coordinating Board's rules and actions required by FP&C and Contract Administration to address issues raised in the preliminary audit report on construction of the Calhoun Lofts Residence Halls.

Audit Report No. AR2010-02 & 03 addressed the information security standards reviews required by the Texas Administrative Code completed every two years. Internal Audits reports on the other two institutions were issued during April 2009. These reports contained management action items to address the instances of non-compliance with the Administrative Code.

Audit Report No. AR2010-04 & 05 addressed the Internal Audits annual reports on the Chancellor/President's travel and entertainment expenditures and the members of the UH System Board of Regents' travel and entertainment expenditures. During the past year, the University of Houston had modified its policies and procedures related to travel and Chairman Wilson had requested the Board of Regents Office review their procedures to determine whether changes were warranted. A committee composed of personnel of the Board Office, Executive Director of Finance, the Business Administrator of the Office of the Chancellor/President, the Director of Accounts Payable, and the Chief Audit Executive reviewed these policies and procedures and certain changes were proposed. These changes will be implemented shortly.

Audit Report No. 2010-06 was a compilation of areas of non-compliance for FY2009 for all of Internal Audits' departmental reviews. This report helps management take action to address repetitive instances of non-compliance. These actions may include modifying its current online training programs or provide additional training.

Audit Report No. 2010-07 was an Internal Audit report on the College of Liberal Arts and Social Sciences (CLASS) which contained one significant finding on financial and administrative oversight. There were 114 open action items in this report. The Assistant Vice President of Academic Budgets and Administration and Mr. Guyton met with the Dean and the College Business Administrator of CLASS to discuss these items and to emphasize the importance of making certain that business policies were adhered to by all departments in the colleges. The Dean issued a memo to all Department Chairs and

Directors and other business staff informing them of the direct reporting structure of the Department Business Administrators to the College Business Administrators. The Assistant Vice President of Academic Budgets and Administration had implemented a checklist for the College Business Administrators to complete and help to ensure that all required tasks were performed. Internal Audit had identified some misunderstanding regarding the use of the checklist which had been readily clarified by the Assistant Vice President. This college is very large with approximately \$70 million of expenditures during the 2009 fiscal year.

It was noted that under items 2, 3 and 4 of the activity outline, 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 FY 2009.

Item 5 of the activity outline showed Internal Audit had various Special Projects in progress. The State Auditor's Office was conducting its fieldwork for the FY2009 statewide audit which included a full-scope review of Federal Title IV financial aid programs at UH and a limited review of the same programs at UH-Clear Lake. The University of Houston receives a full-scope review every year while the other institutions are on a rotating basis. Internal Audit anticipates some findings from the State Auditor this year, but the audit team indicated at the UH exit conference that the financial aid system and processes were very much improved this year as compared to last year. Various construction auditors have been engaged by FP&C for various construction projects in progress and Internal Audit will be coordinating with them. During September, the Financial Reporting Department issued an RFP for audit services for Internal Audit's five (5) attest engagements (radio, TV, endowment, athletics, and charter school). The auditor selected for these engagements should begin their fieldwork for the audits sometime in November. Internal Audit also has various special projects in progress. One project mentioned was the preparation of the Annual Internal Audit Activity Report which is 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, and members of the UH System Board of Regents.

2. Institutional Compliance Status Report for the Three Months Ended September 30, 2009 – UH System

This report included risk assessments, compliance audits, compliance committee meetings, risk mitigation, and hot-line reports.

3. External Audit Reports – UH System: (1) SAO Enrollment Audit Report and (2) Construction Audit – Final Report, Calhoun Lofts Residence Halls

Mr. Guyton stated the first audit report concerned the State Auditor's report on enrollment reporting by Texas Public Universities. Every two years the State Auditor's Office audits a sample of institutions to determine if the data submitted by the institutions is correct, as the enrollment data is one of the main drivers of the amount of formula funding received by the institution by the State. None of the tested institutions, including the University of Houston, exceeded the allowable error rate. Internal Audit periodically

reviews the enrollment reporting process at each of the UH System institutions to determine whether the information is complete.

The second audit report addressed the final construction on the Calhoun Lofts Residence Halls. This report identified approximately \$750,000 of excess billings which should be collected or retained from the final pay application on the project.

4. Ethics and Conflict of Interest Policies – UH System

These policies refer to the Ethics and Conflicts of Interest Policies of the Board and each of the UH System campuses. One item addressed in this policy concerned the Audit Committee Charter and Checklist which requires an annual review of these policies. 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 NSF, NIH, Department of Agriculture, and the Department of Energy require conflicts of interest policies as part of the terms and conditions of awards said Mr. Guyton. The update to this year's policies included the modification to the Board of Regents Ethics Policy that requires an annual certification statement to be signed by each regent.

5. Annual Fraud Prevention and Awareness Report – UH System

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. Mr. Guyton stated this report is a compilation of each university's comments on the status of their fraud prevention and awareness programs. Noted in UH comments in the report, the annual fraud risk surveys have been completed using an online delivery mechanism for the fifth time. For the third year in a row, all UH System employees will complete online Fraud Prevention and Awareness training and Code of Ethics training.

6. Identity Theft Prevention Program – Executive Summary – UH System

The Audit Committee Planner, Item 5.06, requires the system-wide compliance officer annually to 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 is the first Executive Summary prepared in response to the Board of Regents policy and it describes the progress that each institution has made in establishing and implementing their programs.

There being no further business to come before the committee, the meeting adjourned at 12:32 p.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
Jose Rangel
Don Guyton
Elaine Charlson
Barbara Stanley
Wayne Beran

Ed Hugetz
Judy Young
Spencer Moore
Raymond Bartlett
Dan Wells
Jon Aldrich

Russ Hoskins
Joan Nelson
Mike Glisson
Ed Jones
Marquette Hobbs
Gerry Mathisen