

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

Friday, November 14, 2014 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 10:42 a.m. on Friday, November 14, 2014 at the University of Houston, Athletic/Alumni Center, Melcher Board Room 100B, 3100 Cullen Boulevard, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Roger F. Welder, Chair  
Peter K. Taaffe, Vice Chair  
Beth Madison, Member  
Paula Mendoza, Member  
Tilman J. Fertitta, Ex Officio

Non-Member(s) Present

Spencer D. Armour, III, Regent  
Jarvis V. Hollingsworth, Regent  
Welcome W. Wilson, Jr., Regent  
Asit R. Shah, Student Regent, Non-voting

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.

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AGENDA ITEMS

**Action Item(s):**

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 was approved:

- August 19, 2014, Audit and Compliance Committee Meeting

Following the approval of the minutes, Regent Welder stated that all items presented at the meeting would be for information only and that the committee would hear various reports related to Institutional Compliance, Internal Audits, Ethics and Conflict of Interest Policies, Fraud Prevention and Awareness Programs, Identity Theft Prevention Programs, a report on procurement over certain thresholds, and the Anonymous Reporting Mechanism. Regent Welder introduced Mr. Don Guyton, Chief Audit Executive, who presented these various reports before the committee.

Mr. Guyton stated there was one (1) open point outstanding from the August 19, 2014 Audit and Compliance Committee meeting. Regent Agrawal had asked about the status of Internal Audit's (IA) follow-up action items. IA has provided a response to Regent Agrawal's request in

their follow-up report which was included in the Internal Audit briefing booklet which Mr. Guyton would address at the meeting.

Mr. Guyton introduced Item C, the Report on Institutional Compliance Status Report for the three months ended September 30, 2014 – University of Houston System. Mr. Guyton stated this report listed activities which included risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports. The remainder of the Institutional Compliance Status Report summarized the information provided for each institution for their compliance functions. This item was for information only and required no committee action.

The next item listed on the agenda was Item D, a Report on Internal Audit Report – Briefing Booklet – University of Houston System. This report referred to the Internal Audit Briefing Booklet. The Briefing Booklet contained an activity outline, and from this outline, Internal Audit (IA) prepared seven (7) Internal Audit Reports since the August 19, 2014 Audit & Compliance Committee meeting. The executive summaries of these reports were in the Briefing Booklet as well as the individual reports. These reports addressed areas included in the Board-approved Audit Plan and included reviews of the Board of Regents and Chancellor/President's Office Travel; IA's Annual Non-Compliance Report; a special report on UHS State Benefits Proportionality which had been requested by the governor; a report on UH Student Accounting and Receivables and IA reports on Construction Awards and 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.

Internal Audit's report on UH Student Accounting and Receivables contained a management action plan and it was included in the Briefing Booklet. An overview of all of IA's recommendations were also included in these reports.

Audit Report No. AR2015-01 was a follow-up report and addressed the status of 33 action items in 11 individual audit reports. IA verified that 17 of the action items had been implemented and 14 partially implemented. Updated management responses had been obtained on the partially implemented action items. IA had two (2) high risk items in this report related to institutional policies governing research centers and institutes and they were now supposed to be implemented by December 31, 2014. In this report, IA addressed Regent Agrawal's question concerning the status of follow-up action items by providing a two-year roll-forward through the end of FY 2014. At the end of FY 2014, IA had 77 open items.

Audit Report No. AR2015-02 was the Construction Award Status Report. This is a standing report in IA's Briefing Booklet, similar to their 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 during FY 2011. The objective of 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 July 1, 2014 through September 30, 2014. Appendix 1 of this report indicated the

scope of the Internal Audit Review. There was not much activity during this three (3) month period and it was noted no unusual items or non-compliance with policies or statutes.

Audit Report No. AR2015-03 was a compilation of areas of non-compliance for FY 2014 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 Nos. AR2015-04 and AR2015-05 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.

Audit Report No. AR2015-06 was IA's report on UHS State Benefits Proportionality. On May 29, 2014 Governor Perry requested the chairmen of all institutions of higher education to have their internal auditors review the state benefits process at their institutions. This was a result of another higher education system receiving excess state funded benefits of approximately \$80 million over an 11-year period. The General Appropriations Act prohibits general revenue appropriations from being expended for employee benefit costs if the salaries or wages are paid from sources other than the General Revenue Fund. In addition, the General Appropriations Act states that benefits paid from appropriated funds shall be made in proportion to the source of funds from which the respective salaries were paid – either General Revenue Fund or General Revenue Fund – Dedicated which is primarily statutory tuition. Other than some minor errors, the UHS institutions complied with the State Comptroller's Accounting Policy Statement governing state-paid benefits.

Audit Report No. AR2015-07 was IA's report on UH Student Accounting and Receivables. We believe that UH has adequate internal controls to help ensure that student accounts are being billed, collected, and written off in accordance with statutes, regulations and policies.

Internal Audit has various scheduled audits in the fieldwork in progress or in the planning phase. These audits were included in the Board-approved Internal Audit Plan for 2014. They also have various special projects in progress. FEMA is still conducting audits of UH's reimbursements for Hurricane Ike. The State Comptroller has wrapped up its post-payments audits at UH and UH-Clear Lake (UHCL) and has drafted its reports and it is just beginning its audit at UH-Downtown (UHD). These audits have been performed at all of our institutions about every two to three years. The State Auditor's Office has started its annual statewide audit and UH and UHD's Federal Financial Aid Programs were included in the scope of the review. Also included in the scope of this audit were UH's Research and Development and the Teachers Retirement System expenditures made by UH and UHD. Their report should be issued during the February – March timeframe. IA's annual external audit engagements of Endowments, Charter School, Public Media, Athletics, and Cancer Prevention Research Institute grants have also started.

The Audit Plan status was addressed and the shaded areas of the report showed the areas that had been completed and the footnotes indicated the status on all other areas.

## University of Houston System

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

Mr. Guyton presented the next item on the agenda, Item E, Report on Ethics and Conflict of Interest Policies of the Board of Regents and Each of the Universities – University of Houston System. This item referred to the Ethics and Conflicts of Interest Policies of the Board and each of the universities. 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 (NSF), National Institutes of Health (NIH), Department of Agriculture and the Department of Energy require these Conflict of Interest Policies as part of the terms and conditions of awards. A summary of these policies and the changes to these policies were also included since they were last reviewed by the Audit and Compliance Committee in February 2014. Most of the changes were very minor. The UH Research Policy on Conflict of Interest for Academic Staff was also updated to reflect some rule changes at the NIH and the NSF.

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

The next item addressed before the committee was Item F, Report on Annual Fraud Prevention and Awareness Report – University of Houston System. Mr. Guyton stated this report referred to the Annual Fraud Prevention and Awareness Report. 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 satisfied 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.

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

Mr. Guyton moved to the next item on the agenda, Item G, Report on Identity Theft Prevention Program – Executive Summary – University of Houston System. This item referred to the Executive Summary of the UH System's Identity Theft Prevention Program. The Board of Regents Policy 42.02, Identity Theft Prevention Program, 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. This executive summary described the progress that each institution had made in establishing and implementing their programs.

Mr. Guyton also mentioned that related to this area was IT security which had been receiving a lot of attention. Dr. Rathindra Bose, Vice Chancellor for Research and Technology Transfer and the IT Security section had the FBI agents do a presentation entitled, "Who is Stealing My Research" recently and they had over 200 private investigators and staff attend this event. Mr. Guyton stated that Dr. Bose had mentioned to him that there were more presentations coming in this regard.

This item was presented for information only and required no committee approval. The next item for information was Item H, a Report on Annual Procurement Report FY2014 – University of Houston System. This particular item referred to the Annual Procurement Report of the 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 IA Department reviewed the methodology for compiling this report, including the procedures and criteria used to create the report. In their opinion, the report preparation methodology appears to be reasonable and the report satisfied the annual reporting requirement for procurement activity for the Board.

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

Mr. Guyton introduced Item I, the Report on University of Houston System, Internal Auditing Department – Annual Report, Fiscal Year 2014 University of Houston System. This item referred to the University of Houston System Internal Auditing Department Annual Report for FY 2014; and 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, 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 IA Department including an executive summary, a comparison of budget to actual, a report on the peer review of the IA Department which is conducted every three (3) years, and various other information items.

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

Item J, a Report on Anonymous Reporting Mechanism Summary Report, FY2014, and Overview of Anonymous Reporting Mechanism – University of Houston System was the last item presented to the committee. Mr. Guyton stated this item referred to the report on Anonymous Reporting Mechanism, Summary Report – University of Houston System. This report summarized the receipt of anonymous reports and their disposition for FY 2014. As noted in the report, IA received 98 reports through the MySafeCampus Reporting System. In addition, they received approximately 13 additional reports through other mechanisms, including the State Auditor's Office. Of the 97 MySafeCampus reports resolved during the year, 13 resulted in disciplinary actions.

This item was presented for information only and required no committee approval. This item concluded Mr. Guyton's presentations to the committee.

Regent Welder thanked Mr. Guyton and his staff for the broad coverage on all of the audit responsibilities in the institution which are really vast; and thanked Mr. Guyton for all of his presentations at the committee meeting.

No Executive Session was called.

University of Houston System

There being no further business to come before the committee, the meeting adjourned at 11:02 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.

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Others Present:

Renu Khator  
Carl Carlucci  
Paula Myrick Short  
Rathindra Bose  
Elwyn Lee  
William Flores  
Vic Morgan  
Dana Rooks  
Brian Thomas  
Marquette Hobbs

Don Guyton  
Sandra Dahlke  
Jeffrey Cass  
Mike Glisson  
Branda Lumpkin  
Brian Alexander  
Erin O’Keefe  
Don Price  
Sacha Ryder  
Brenda Robles

Russ Hoskens  
Tom Ehardt  
David Bradley  
Phil Booth  
Dan Maxwell  
Ed Hugetz  
Joe Brueggman  
Mara Afri  
Jon Aldrich  
Gerry Mathisen