

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

Wednesday, November 17, 2010 – The members of the Audit and Compliance Committee of The University of Houston System convened at 11:00 a.m. on Wednesday, November 17, 2010 at the University of Houston-Downtown, in the Special Events Center, Academic Building, Third Floor, One Main Street, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Nandita V. Berry, Chair
Jacob M. Monty, Vice Chair
Welcome W. Wilson, Sr., Member
Carroll Robertson Ray, Ex Officio

Non-Member

Jarvis V. Hollingsworth, Regent
Andrew Cobos, 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.

AGENDA ITEMS

Regent Berry stated this was her first time chairing the committee and she was looking forward to working with Mr. Guyton and his team. She also thanked Regent Jacob M. Monty, immediate past chair of this committee, for his stewardship of the committee.

Regent Berry then introduced the first item on the agenda.

1. Approval of Minutes – Item B

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

- August 11, 2010, Audit and Compliance Committee Meeting

Regent Berry stated the Charter School Financial Statements, an action item requiring committee approval, would be tabled until the next meeting since the financial statements were not expected to be received from the external auditors until the following week. This item was Audit Item 1. In addition, one audit report in the Internal Audit Briefing Booklet, in Agenda Item 2, Audit Report Number AR2011-05, UH Division of Student Affairs Department Reviews, was being tabled from discussion at this meeting. This report was for information only, and will be

University of Houston System

included in the Internal Audit Briefing Booklet for the February 2011 Audit and Compliance Committee meeting. All of the 12 items listed on the agenda were for information only.

Regent Berry called on Mr. Guyton, Chief Audit Executive, who presented the remaining items on the agenda.

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

As stated by Regent Berry earlier, Item C, Audit -1, Review of Approval of Audit Report and Financial Statements, University of Houston Charter School, FY 2010, University of Houston System had been tabled for discussion and will be presented at the February 2011 Audit and Compliance Committee meeting.

2. UHS Internal Control Environment Presentation – University of Houston System – Item D, AUDIT-2

Mr. Guyton stated Audit 2 referred to the UHS Internal Control Environment powerpoint presentation. Included in this agenda item was a three (3) page summary of the UHS' internal control environment. Mr. Mike Glisson, Controller, presented the material outlining the key points listed in the presentation. Below is a brief summary of Mr. Glisson's remarks:

- Defined Internal Controls – process put in place by the Board, executive management, and other personnel to provide reasonable assurance of achieving objectives.
- Components of Internal Control:
 - Control Environment – Policies
 - Risk Assessment
 - Control Activities
 - Balancing Risks and Internal Controls
 - Information
 - Communications – Notices, Meetings and Reports
 - Monitoring
- Why Controls Don't Always Work
 - External Factors Beyond Control
 - Bad Management
 - Problem Employees
- My Safe Campus Report Life Cycle

A discussion followed. This item was for information only. A complete copy of Mr. Glisson's presentation was filed in the Board office.

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

Mr. Guyton presented this item to the committee. He stated that the transmittal letter of the booklet contained a snapshot of the reports with color coded risk rankings. The first tab in the Briefing Booklet contained an activity outline. Eight (8) internal audit reports have been prepared since the August 11, 2010 Audit and Compliance Committee meeting. One (1) of those reports, the UH Division of Student Affairs Report was tabled until the next committee

University of Houston System

meeting. The executive summaries of these reports were behind Tab 2 in the Briefing Booklet and the individual reports were behind Tab 5. These reports addressed areas that were included in the Board-approved Audit Plan for FY 2010. They include departmental compliance reviews of UH Athletics, the annual review of travel and entertainment expenditures of the Chancellor/President of the University of Houston and members of the Board of Regents, the annual report of non-compliance resulting from the departmental reviews conducted in the preceding fiscal year, the required reviews of two (2) small grants at the University of Houston and the University of Houston-Downtown, 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. One (1) of these reports contains a management action plan and it was included in the Briefing Booklet behind Tab 4. An overview of all of Internal Audits recommendations included in these reports was behind Tab 3.

Audit Report No. 2011-01, Internal Audit's follow-up report, addressed the status of eighty-three (83) action items in eighteen (18) individual audit reports. Internal Audit verified that 50 of the action items had been implemented, twenty-five (25) partially implemented, and eight (8) not implemented. Updated management responses were obtained on the partially implemented and not implemented action items. There were two (2) high risk items in the report where the actions were completed, three (3) high risk items in this report that were partially implemented and one (1) high risk item that was not implemented. Internal Audit was informed that the items would be implemented by December 31, 2010.

Audit Report No. 2011-02 was the Internal Audit report on their Departmental Compliance review of the Athletics Department. Audit Report No. 2011-03 and No. 2011-04 were Internal Audit annual reports on the Chancellor/President's travel and entertainment expenditures and the members of the Board of Regents' travel and entertainment expenditures. Mr. Guyton noted that there were no unusual items or compliance issues in any of these engagements.

Audit Report No. 2011-06 was a compilation of areas of non-compliance for FY2010 for all of Internal Audit's departmental reviews. Mr. Guyton noted that this report should help 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. 2011-07 and 2011-08 were Internal Audit reports on two (2) small grants of Joint Admission Medical Program at the University of Houston and the University of Houston-Downtown funded by the Texas Higher Education Coordinating Board (THECB). These grants will provide funding for programs in support of economically disadvantaged students interested in attending medical school. The Internal Audit Department is required to audit these grants under the terms and conditions of the awards. Mr. Guyton noted that no instances of non-compliance were noted with the terms of the awards.

University of Houston System

Mr. Guyton referred to the activity outline behind Tab 1 which listed various scheduled audits in the reporting, fieldwork in progress or in the planning phase. These audits were included in the Board-approved Internal Audit Plans for FY2010 and FY2011.

Internal Audit also had various Special Projects in progress listed under Item 5 of the outline. One of the items listed was the State Auditor's Annual State-wide Audit. The State Auditor's Office is completing its fieldwork for the UH Federal Financial Assistance Programs. It has also performed limited reviews of the UH Federal Research and Development funds and the University of Houston-Clear Lake Federal Financial Assistance Programs. The State Auditor's report should be issued during the February/March 2011 timeframe.

Mr. Guyton stated that the Audit Plan status was listed behind the activity outline. The shaded areas denoted that the item was complete and the footnotes indicated the status on the other areas.

This item was for information only and required no committee action. A complete copy of the Internal Audit Briefing Booklet was filed in the Board office and may be accessed at:
http://www.uhsa.uh.edu/regents/board_meetings/documents/111710Audit/Audit%203.1.1.pdf

4. Institutional Compliance Status Report for the Three Months Ended September 30, 2010 – University of Houston System – Item F, AUDIT-4

Mr. Guyton introduced this item which referred to the Institutional Compliance Status Report for the three months ended September 30, 2010. This report listed activities which included risk assessments, compliance audits, compliance committee meetings, risk mitigation, and hot-line reports.

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

5. External Audit Report – Veterans' Services at Selected Institutions of Higher Education and Survey Results Related to Veterans' Services at All Texas Public Higher Education Institutions - University of Houston System – Item G, AUDIT-5

This report referred to the State Auditor's Report on Veterans' Services at selected institutions of higher education and survey results related to veterans' services at all Texas public higher education institutions. The University of Houston was one of seven (7) institutions selected for detailed reviews said Mr. Guyton. The agenda sheet listed the pages in the report which referred to the University of Houston. There were general recommendations in the report and there were recommendations specific to the University of Houston which related to compliance with the Texas Education Code. The student catalog has been modified to address one (1) of these issues and proposed revisions to the System-wide policy on "Student Reservists Called to Active Duty" has been submitted to address the other compliance issues. The University of Houston Dean of Students, Willie Munson, and the Assistant Vice President for Student Access and Success, Steve Soutullo, were available at the meeting to help answer any questions.

University of Houston System

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

6. External Audit Report – Texas Comptroller of Public Accounts Post Payment Audit of the University of Houston – University of Houston – Item H, Audit 6

Mr. Guyton introduced this item which referred to an External Audit Report, Texas Comptroller of Public Accounts Post Payment Audit of the University of Houston. The scope of this audit included a sample of payroll, purchase and travel transactions during the period from March 1, 2009 through February 28, 2010. This report identified certain instances of non-compliance or errors. The entire report can be viewed on the Internal Auditing website at www.uh.edu/audit by clicking on reports and external reports 2010.

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

7. External Audit Report – Texas Comptroller of Public Accounts Post Payment Audit of the University of Houston-Victoria – University of Houston System – Item I, Audit 7

The scope of this audit included a sample of payroll, purchase and travel transactions during the period from December 1, 2008 through November 1, 2009 stated Mr. Guyton. This report identified certain instances of non-compliance or errors. The entire report can be viewed on the Internal Auditing website at www.uh.edu/audit.

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

8. External Audit Report – Texas Comptroller of Public Accounts Post Payment Audit of American Recovery and Reinvestment Act (ARRA) Transactions of the University of Houston – University of Houston System – Item J, Audit 8

Mr. Guyton stated the scope of this audit included ARRA transactions during the period from April 1, 2009 through March 31, 2010. The report did not reveal any non-compliance or errors. The entire report can be viewed on the Internal Auditing website at www.uh.edu/audit.

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

9. Ethics and Conflict of Interest Policies of Board of Regents and Each of the Universities – University of Houston System – Item K, Audit 9

This item referred to the Ethics and Conflict of Interest Policies of the Board of Regents and each of the universities. Item number 23 in the Audit Committee Charter and Checklist requires an annual review of these policies. Not only are these policies very important for all institutions said Mr. Guyton, 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. There were minor changes made to these policies since they were reviewed by

University of Houston System

the Audit and Compliance Committee in November 2009 and a summary of these policies was distributed for reference.

A discussion followed. This report was for information only and required no committee action.

10. Annual Fraud Prevention and Awareness Report – University of Houston System – Item L, Audit 10

Mr. Guyton stated that the Audit Committee Planner, Item 5.05, requires the committee to evaluate management's identification of fraud risks, the implementation of anti-fraud 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 Rick 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. The key points of the report were listed on the agenda sheet along with the related page numbers in the report and may be found at: http://www.uhsa.uh.edu/regents/board_meetings/documents/111710Audit/Audit%2010.pdf

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

11. Identity Theft Prevention Program – Executive Summary – University of Houston System – Item M, Audit 11

This item referred to the Executive Summary of the University of Houston System's Identity Theft Prevention Program. 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 Programs of the component institutions. During December 2008, the Board of Regents implemented a policy on the Identify 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 Executive Summary was prepared in response to the Board of Regents' policy and it described the progress that each institution had made in establishing and implementing their progress. The key points of the report were listed on the agenda sheet along with the related page numbers in the report and may be accessed at: http://www.uhsa.uh.edu/regents/board_meetings/documents/111710Audit/Audit%2011.1.1.pdf

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

12. UH System at Sugar Land – Academic Building Construction Audit – University of Houston System – Item N – Audit 12

Mr. Guyton stated this item referred to the UH System at Sugar Land – Academic Building Construction Audit. The report was prepared by CCM Consulting and was issued on February 1, 2010. This report identified approximately \$700,000 of questionable billings by

University of Houston System

the contractor, Skanska, Inc. The contractor has disputed the audit findings and the report was used as the basis for discussion and resolution by the University of Houston System Office of General Counsel and Skanska's In-house Counsel. During these discussions, the University of Houston determined that its standard contract language with the contractor needed to be amended to eliminate similar interpretations by the contractor in the future. As a result, none of the questionable billings are now being disputed. Certain provisions of the standard contract have been amended and other provisions of the standard contract are in the process of being amended.

A discussion followed. This report was for information only and required no committee action.

13. University of Houston System Internal Auditing Department – Annual Report, Fiscal Year 2010 – University of Houston System – Item O – Audit 13

This report referred to the University of Houston System Internal Auditing Department Annual Report for FY2010. This report 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 Board of Regents. This is a comprehensive report on the activities of the Internal Auditing Department which included an executive summary, a comparison of budget to actual, a report on the peer review of the Internal Audit Department, which is conducted every three (3) years, and various other informational items.

A discussion followed. This report was for information only and required no committee action.

In Mr. Guyton's concluding comments, he stated that the Board of Regents policy and the Texas Internal Auditing Act, Texas Government Code, Section 2102.011, requires the Internal Audit Program to conform to the *Standards for the Professional Practice of Internal Auditing (Standards)*, as promulgated by the Institute of Internal Auditors. The *Standards, Practice Advisory 1110-1*, state that the Chief Audit Executive should meet privately with the Board, Audit Committee, or other appropriate governing authority, at least annually. This private meeting was held after the Board of Regents meeting held later in the day.

At the conclusion of the meeting, Chair of the Committee, Regent Berry, thanked Mr. Guyton and his staff for all of their efforts in preparing all of the reports and acknowledged the immense amount of time required when preparing these reports.

There being no further business to come before the committee the meeting adjourned at 12:00 noon.

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.

University of Houston System

Others Present:

Renu Khator
William Flores
Don Smith
Bill Staples
Dona Cornell
John Antel
Elwyn Lee
Grover Campbell
Barbara Stanley
Mark Clarke
Willie Munson
Michael Dressman
Allen Grundy

Don Guyton
Oscar Gutierrez
Wayne Beran
Tom Ehardt
David Bradley
Mike Glisson
Ed Hugetz
Dan Wells
Nikhil Bhatt
Jon Aldrich
Michelle Moosally
Derrick McClinton

Raymond Bartlett
Judy Young
Spencer Moore
Russ Hoskens
David Ellis
Gilda Parker
Joe Bertolino
Richard Bonnin
Sue Davis Green
Mike Emery
Stephen Soutullo
Malcolm Davis