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## SECTION A-6

### AUDIT AND COMPLIANCE COMMITTEE CHARTER AND CHECKLIST

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#### **Audit & Compliance Committee Charter of the Board of Regents of The University of Houston System**

#### **Role**

The Audit & Compliance Committee (“the Committee”) of the Board of Regents (“the Board”) of The University of Houston (“U. H.”) System assists the Board in fulfilling its responsibilities for:

- ◆ Oversight of the quality and integrity of the accounting and financial reporting practices, including the annual financial statements, and the system of internal controls;
- ◆ Oversight and direction of the internal auditing function, any external auditors or other outside expertise whom the Committee may employ, and engagements with the State Auditor;
- ◆ Oversight and direction for the System-wide institutional compliance function;
- ◆ Oversight of the review of effective institutional management practices which provide for effective risk management, accountability and stewardship at all U. H. System components; and
- ◆ Other duties as directed by the Board.

The Committee’s role includes a particular focus on U. H. System’s processes to manage business and financial risk, and for compliance with significant applicable legal, ethical, and regulatory requirements.

#### **Membership**

The membership of the Committee shall consist of not less than three regents, nor more than four. The Committee will have a committee chair, vice chair, and one or two additional regents, all of whom shall be appointed by the chair of the board. The chair of the board will serve as ex-officio for the Committee and will count for purposes of determining a quorum. A quorum is three for the Committee. One to four advisory members may be appointed to the Committee with the unanimous approval of the chair of the board, the chancellor, and the chair of the Committee. The advisory members will serve one-year terms from September 1 through August 31 and may be reappointed each year. Advisory members will not have voting authority.

### **Reporting**

The Chief Audit Executive, System-wide Compliance Officer, and executive management shall provide periodic reports related to audit, compliance, and management review to the Committee. Any public accounting firm or other outside expertise employed by the Committee shall report directly to the Committee. The State Auditor's reports will be submitted to this committee. The Committee is expected to maintain free and open communications, which shall include private executive sessions, at least annually, with these parties, as it deems appropriate and is permitted by law.

The Committee chairperson shall regularly report Audit & Compliance Committee activities to the full Board of Regents, particularly with respect to:

- (i.) any issues that arise regarding compliance with legal or regulatory requirements and the performance and independence of internal and external auditing and assurance functions; and
- (ii.) such other matters as are relevant to the Committee's discharge of its responsibilities.

### **Education**

U. H. System executive management is responsible for providing the Committee with educational resources related to accounting principles and procedures, risk management, and other information that may be requested by the Committee. U. H. System executive management shall assist the Committee in maintaining appropriate financial and compliance literacy.

### **Authority**

The Committee, in discharging its oversight role, is empowered to study or investigate any matter related to audit, compliance, and management of interest or concern that the Committee, in its sole discretion, deems appropriate for study or investigation by the Committee. The Committee shall be given full access to all U. H. System employees and operations as necessary to carry out this authority. The Committee through its chair is authorized to engage outside expertise, to the extent permitted by applicable law, should it choose to do so.

### **Responsibilities**

The Committee's specific responsibilities in carrying out its oversight role are delineated in the Audit & Compliance Committee Responsibilities Checklist. The responsibilities checklist will be updated annually by the Committee to reflect changes in regulatory requirements, authoritative guidance, and evolving oversight practices. As the compendium of Committee responsibilities, the most recently updated responsibilities checklist will be considered to be an addendum to this charter.

The Committee relies on the expertise and knowledge of management, the internal auditors, the State Auditor, and any public accounting firm or other outside expertise they may employ in carrying out its oversight responsibilities. U. H. System executive management is responsible for preparing complete and accurate financial statements and for monitoring internal controls and compliance with all applicable laws, regulations, and internal policies and procedures. Any public accounting firm or other outside expertise hired by the Committee is responsible for performing the services specified in the hiring contract.

## **CHECKLIST**

### **Responsibilities Checklist**

**for the**

**Audit & Compliance Committee**

**of the**

**Board of Regents of The University of Houston System**

1. The Committee will perform such other functions as assigned by law or the Board of Regents of The University of Houston System (“the Board”).
2. The Committee shall meet four times per year or more frequently as circumstances require. The Committee may ask members of management or others to attend the meeting and provide pertinent information as necessary.
3. The agenda for Committee meetings will be prepared in consultation between the Committee chair (with input from the Committee members), U. H. System executive management, the Chief Audit Executive, and the System-wide Compliance Officer.
4. The Committee shall verify that its membership is familiar with the Committee’s Charter, goals, and objectives.
5. The Committee shall review the independence of each Committee member based on applicable independence laws and regulations.
6. The Committee shall review and approve the appointment or change in the Chief Audit Executive.

7. The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities.
8. The Committee shall provide an open avenue of communication between the State Auditor, internal auditors, any public accounting firm or other outside expertise employed, executive management, and the Board. The Committee chairperson shall report Committee actions to the Board with such recommendations as the Committee may deem appropriate.
9. For the purpose of preparing or issuing an audit report or related work, the Committee shall be directly responsible for the appointment, compensation, and oversight of the work of any employed public accounting firm (including the resolution of disagreements between management and the auditor regarding financial reporting) or other outside expertise. This does not preclude an individual component institution from hiring a public accounting firm to perform work at the component level.
10. The Chief Audit Executive has responsibility for ensuring that no conflicts of interest exist between public accounting firms performing consulting services and firms conducting financial statement audits. The Chief Audit Executive shall report annually on the status and integrity of U. H. System's engagements with public accounting firms.
11. The Committee shall review with executive management, the Chief Audit Executive, the System-wide Compliance Officer, the State Auditor, and any employed public accounting firm the coordination of efforts to assure completeness of coverage, reduction of redundant efforts, and the effective use of resources.
12. The Committee shall inquire of executive management, the Chief Audit Executive, the System-wide Compliance Officer, and any employed public accounting firm or other outside expertise about significant risks or exposures and assess the steps management has taken to minimize such risk to U. H. System.
13. The Committee shall consider and review with the Chief Audit Executive, the System-wide Compliance Officer, the State Auditor, and any employed public accounting firm or other outside expertise:
  - a. The adequacy of U. H. System's internal controls including computerized information system controls and security;
  - b. The adequacy and efficiency of senior-level management with respect to fiscal operations and compliance functions at all component institutions;

- c. Any related significant findings and recommendations of the State Auditor, independent public accountants, and internal audit together with management's responses thereto.
14. Regarding the U.H. System's financial statements, the Committee shall review with executive management and/or the Chief Audit Executive:
  - a. U. H. System's annual financial statements and related footnotes;
  - b. Any audit and assurance work performed on components of the annual financial statements;
  - c. Any significant changes to the financial statements requested by the State Auditor, internal audit, or any independent public accountants;
  - d. Any serious difficulties or disputes with management encountered during assurance work on components of the financial statements;
  - e. Other matters related to the conduct of assurance services that are to be communicated to the Committee under generally accepted government auditing standards.
15. The Committee shall require the U. H. System Chancellor and U.H. System Chief Financial Officer certify the annual financial statements for the U. H. System as a whole, and that each component President and Chief Financial Officer certify the annual financial statements for their respective component institution.
16. The Committee shall review legal and regulatory matters that may have a material impact on the financial statements, internal auditing and/or compliance activities.
17. The Committee shall review with executive management and the Chief Audit Executive at least annually U. H. System's critical accounting policies, including any significant changes to Generally Accepted Accounting Procedures (GAAP), Regents' Bylaws and Policies, and/or operating policies or standards.
18. On an annual basis, the Committee shall review, recommend, and approve the annual audit plan, including the allocation of audit hours and internal audit budget and staffing.
19. Regarding audits, the Committee shall consider and review with executive management and the Chief Audit Executive:
  - a. Significant findings during the year and management's responses thereto;
  - b. Any difficulties encountered in the course of the audits, including any restrictions on the scope of work or access to required information;
  - c. Any changes required in the planned scope of the audit plan.

20. The Committee shall conduct an annual performance review and evaluation of the Chief Audit Executive.
21. The Committee shall ensure procedures are established for the receipt, retention, and treatment of complaints received regarding internal controls or auditing matters; and the confidential anonymous submission by employees of concerns regarding questionable auditing matters.
22. The Committee shall monitor The University of Houston System Institutional Compliance Program and review with executive management and the System-wide Compliance Officer the status of the program and the results of its activities, including:
  - a. Significant institutional risks identified during the year and mitigating actions taken;
  - b. Significant findings during the year and management's responses thereto;
  - c. Any difficulties encountered in the course of inspections or assurance activities, including any restrictions on the scope of work or access to required information;
  - d. Any changes required in planned scope of the compliance action plan.
23. The Committee shall conduct an annual review of the ethics and conflict of interest policies of the Board and each of the universities and receive a status update on the annual regent certification statements.
24. The Committee shall ensure procedures are established for the receipt, retention, and treatment of complaints received regarding compliance issues and the confidential anonymous submission by employees of concerns regarding ethically or legally questionable matters.
25. The Committee shall meet with the Chief Audit Executive, the System-wide Compliance Officer, executive management, or any employed external auditors or other outside expertise in executive session to discuss any matters that the Committee or the before named believe should be discussed privately with the Committee, to the extent permitted by applicable law.
26. The Committee shall review and update the Audit & Compliance Committee Responsibilities Checklist annually.
27. The Committee shall conduct an annual review of the report on compliance of each support organization.

28. The Committee shall receive an annual fraud prevention and awareness report which summarizes the fraud risk analyses and related risk mitigation strategies.
29. The Committee shall receive an annual report of all activities of the Identity Theft Prevention program.
30. The Committee shall receive an annual report to the Board listing all professional services and consulting contracts to a single entity greater than \$250,000 and for all other procurements (except investment agreements) where total compensation for system-wide sources to a single entity is expected to exceed \$1,000,000.
31. The Committee shall receive an annual report on the activities of the Internal Auditing Department in the format prescribed by the State Auditor's Office (Texas Government Code 2102.009).
32. The Committee shall receive an audit report on the safety and security of the institution's facilities at least once every three years (Texas Education Code 51.217).