

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

**February 10, 2009**

The Vice Chair of the Committee, Nelda Luce Blair, convened the meeting of the Audit & Compliance Committee of the University of Houston System Board of Regents, at 10:58 a.m., in the Melcher Board Room 100B, Athletics/Alumni Building, 3100 Cullen Boulevard, University of Houston, on Tuesday, February 10, 2009, with the following members present: Jacob M. Monty and Welcome W. Wilson, Sr., Ex Officio. The Chair, Dennis D. Golden was unable to attend.

Regent Blair turned the meeting over to Mr. Don Guyton, Director of Internal Auditing, who stated there was one open point from the last Audit Committee meeting. A year-end report would be given to the Board annually on campus security and emergency preparedness. This report would be scheduled in the Audit and Compliance Committee Planner for December of each year; and this revision to the planner will be placed on the agenda in August 2009.

One action item was presented to the committee for approval.

**Action Item**

1. Board of Regents' Internal Audit and Institutional Compliance Policies – UH System

The Audit Committee Planner, Item Number 3.03, requires an annual review of the Board of Regents' policies on Internal Audit and Institutional Compliance. Mr. Guyton stated a minor modification had been made to these policies by changing the reference to "Audit Committee" to "Audit and Compliance Committee."

Regent Blair moved committee approval of the item as presented. Regent Monty seconded the motion, which passed unanimously. This item will be presented to the board for final approval at the February 17, 2009 Board of Regents meeting.

Mr. Guyton presented the next four items for information.

1. Institutional Compliance Status Report for the Three Months ended December 31, 2008 – UH System

The activities in this report included risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports. The report also listed a table that summarized each institution's mandatory training

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status. There are five state and systemwide-mandated training/reporting requirements that all employees must fulfill on an annual or bi-annual basis. For convenience, these courses are made available to all employees in an online format and can be accessed 24 hours a day, seven days a week.

The state-mandated training consists of:

- Equal Employment Opportunity (EEO) – bi-annually required by Texas Labor Code.
- Secure Our Systems – annually required by the Texas Administrative Code, Chapter 202.

The systemwide annual training/reporting requirements are:

- Code of Ethics – annually as part of the University of Houston System fraud prevention plan, which was developed to comply with Governor Perry's Executive Order RP36. Additionally, annual distribution of the policy to all employees is required by Board policy.
- Fraud Awareness – annually as part of the University of Houston System fraud prevention plan, which was developed to comply with Governor Perry's Executive Order RP36.
- External Consulting & Related Party Disclosure – required by the Board Code of Ethics Policy 57.02 and disclosure of related party interests required by System Administrative Memorandum (SAM) 03.A.17.

Mr. Guyton stated there are also requirements for certain classes of employees at the University of Houston to complete role-based credit card and cash handling training. As of January 31, 2009, the updated progress for each institution was UH-Clear Lake – 93.3%; UH-Downtown – 93.5%; UH & System Administration – 92.4%; UH-Victoria – 98.8%; and total UH System – 92.9%. After the training topic was discussed last year, System policy had been revised and in order to be eligible for a merit pay increase, all mandatory training must be taken. This policy applies to all faculty and staff.

2. External Audit Report – UH Athletics Department Independent Accountants' Report on the Application of Agreed-Upon Procedures for Year ended August 31, 2008 (excerpts) – UH System

The Audit & Compliance Committee 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. Mr. Guyton stated he was pleased that this year's report did not contain any repeat findings that had been included in prior year reports, particularly in the area of the ticket accounting system.

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### 3. Internal Audit Report – Briefing Booklet – UH System

This report contained an Internal Audit Activity Outline, Internal Audit Reports issued since the December 8, 2008, Audit and Compliance Committee meeting of the Board of Regents. Mr. Guyton stated that four internal audit reports had been prepared and these reports addressed areas included in the Board-approved Audit Plan for fiscal years 2008 and 2009; included a review of the UH College of Natural Sciences and Mathematics; an audit of football attendance; a review of endowment income expenditures and an audit follow-up activity. The Briefing Booklet also contained a report on the Internal Audit Department's Quality Assurance Program. 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 Texas Government Code.

Audit Report No. 2009-11, addressed the status of 25 action items in 15 individual audit reports. Mr. Guyton stated that 11 of the action items had been implemented and 14 were partially implemented and updated management responses had been obtained on the partially implemented actions. There was one high risk item in the report and it had been implemented.

Audit Report No. 2009-12, the audit report on the College of Natural Sciences and Mathematics, contained two significant findings: one on the financial and administrative oversight and one on the maintenance of shadow systems. There were 48 open action items for this report. Mr. Guyton said he had met with the dean and the college business administrator to discuss these items and emphasized the importance of making sure that UH business policies were adhered to by all departments within the colleges. The business administrator for the academic affairs area had been present at this meeting and he had emphasized to Mr. Guyton that he was requiring his area to implement a checklist to help ensure that all required tasks were performed. Mr. Guyton stated that on November 13, 2008, Dr. Carlucci attended the periodic meeting of all colleges and division business administrators and had reminded them that he was responsible for business administration at UH and he expected them to let him know if anyone was having problems with deans or department chairs in complying with UH business policies. UH policy had been modified several years ago which required a dotted line reporting relationship between the CFO and the business administrators; and Dr. Carlucci is planning to meet with the deans to remind them of this reporting relationship.

Mr. Guyton also mentioned that various audits were scheduled in the reporting, fieldwork in progress or in the planning phase. There were also various Special Projects in Progress. The State Auditor's Office is currently drafting its report for the annual statewide audit of UH; and UH's federal financial aid programs were included in the scope of its work each year. The State Auditor drafted six findings on the UH federal financial aid programs, and FY2008 was the first

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audit of this area since UH migrated to the new financial aid system. Mr. Guyton stated that some of the sample error rates were extremely high and Financial Aid management and other areas of enrollment services would have to make certain that they determine the source of the errors and fix the underlying problems. They plan to do this by the end of April 2009.

The external auditors for UH, McConnell & Jones, recently issued their report on the annual audits of KUHT & KUHF, and this will be included on the agenda of the April 14, 2009 Audit and Compliance Committee meeting. They are currently conducting their fieldwork on the annual audit of the Endowment Fund and this report should also be on the agenda for this meeting.

The Peer Review Report on the Internal Audit Department, behind Tab 6, was also discussed. There were three recommendations in the following areas: (1) changing the job title of the internal auditor; (2) enterprise risk management; and (3) electronic workpaper efficiency and effectiveness. It was recommended that Mr. Guyton's title be changed to Chief Audit Executive. All three recommendations will be implemented and Mr. Guyton stated they would be tracked similar to other audit reports.

#### 4. Certification of Annual Financial Statements – UH System

The Audit Committee Planner, Item Number 3.13, requires that the UH System Chancellor and the UH System Chief Financial Officer certify the annual financial statements for the UH System as a whole, and that each component President and Chief Financial Officer certify the annual financial statements for their respective component institution.

There being no further business to come before the committee, the meeting was adjourned at 11:45 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:**

Carl Carlucci  
Dona Cornell  
Elwyn Lee  
John Antel  
Dan Gardner  
David Bell

Don Guyton  
Ed Hugetz  
Ed Jones  
Elaine Charlson  
Craig Ness  
Marquette Hobbs

Russ Hoskins  
Wynne Chin  
Malcolm Davis  
Mike Emery  
Molly Woods  
Gerry Mathisen