

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

Wednesday, February 16, 2011 – The members of the Audit and Compliance Committee of the University of Houston System convened at 8:46 a.m. on Wednesday, February 16, 2011 at the Hilton University of Houston Hotel, Waldorf Astoria Ballroom E, Second Floor, 4800 Calhoun, 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

Jim P. Wise, 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. Regent Berry stated three action items and six information items would be presented to the committee and then introduced the first item, the approval of minutes.

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AGENDA ITEMS

**Action Items:**

1. Approval of Minutes – Item B

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

- November 17, 2010, Audit and Compliance Committee Meeting

Regent Berry welcomed everyone to the meeting and introduced Mr. Don Guyton, Chief Audit Executive, who presented the remaining items to the committee.

2. Review and Approval of Audit Report and Financial Statements, University of Houston Charter School, FY 2010 – University of Houston, Item C – AUDIT 1

Mr. Guyton stated there were no open points from the August 11, 2010 Audit and Compliance Committee meeting. The review and approval of Audit Report and Financial Statements, University of Houston Charter School, FY2010 item had been tabled at the last Audit and Compliance Committee meeting because the financial statements were not

expected in time from the external auditors. It was emphasized that these reports should be received in a timely manner. In addition to the requirement to submit the audited financial statements to the Texas Education Agency (TEA), all charter schools must also submit evidence of the board's approval or disapproval of the financial statements. This is a requirement of the Texas Education Code. Once this item is approved by the committee and Board, the University of Houston can then submit the approved financial statements to the TEA.

Regent Berry commented that these financial statements were tabled at the last Audit and Compliance meeting because we had not yet received the financial reports. Regent Berry stated that she had spoken to Mr. Guyton and requested that in the future we receive our external audit reports for our committee meetings prior to the statutory/regulatory deadlines.

On motion of Regent Ray, seconded by Regent Monty and by a unanimous vote of the committee members present, the review and approval of Audit Report and Financial Statements, University of Houston Charter School, FY2010 was approved by the committee and will be placed on the Consent Docket at the Board of Regents meeting on February 17, 2011 for final Board approval.

3. Board of Regents' Internal Audit, Institutional Compliance and Identity Theft Program Policies – University of Houston System, Item D – AUDIT-2

Mr. Guyton referred to Audit 2 which contained the Board of Regents' Internal Audit, Institutional Compliance and Identity Theft Program Policies. The Audit Committee Planner, Item No. 3.03, requires an annual review of the Board of Regents' policies on Internal Audit and Institutional Compliance. The Board of Regents' Ad Hoc Policy Committee and General Counsel, Dona Cornell, have proposed minor changes to these policies which will require both the Audit and Compliance Committee's and the Board's approval. These proposed changes include adding statutory and regulatory references to the policies and making minor suggested changes to the Internal Auditing policy to clarify statutory requirements and best practices.

The Board of Regents' Internal Audit Policy 41.01 serves as the Internal Audit Charter and it establishes the framework for the Internal Audit function. Paragraph 41.01.2.C of this policy requires the Internal Audit Department to adhere to the Standards for the Professional Practice of Internal Auditing and the IIA Code of Ethics, noted Mr. Guyton. Internal Auditing Standard 1010 requires the Chief Audit Executive to discuss the definition of Internal Auditing, the IIA Code of Ethics and the Standards with the Board and senior management.

Paragraph 41.01.1.C of this policy is the definition of Internal Auditing and it states: "Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve the UH System's operations. It helps the System accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

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The Code of Ethics establishes four (4) principles that internal auditors are expected to apply and uphold: Integrity, Objectivity, Confidentiality and Competency. The Code of Ethics also contains twelve (12) specific rules of conduct for these principles. Each year all audit staff, including Mr. Guyton, read the Code of Ethics and sign a statement acknowledging their responsibilities to adhere to this code.

The IIA Standards are comprised of Attribute Standards and Performance Standards. The Attribute Standards are:

- Purpose, Authority and Responsibility;
- Independence and Objectivity;
- Proficiency and Due Professional Care; and
- Quality Assurance and Improvement Program.

The Performance Standards are:

- Managing the Internal Audit Activity;
- Nature of Work;
- Engagement Planning;
- Performing the Engagement;
- Communicating Results;
- Monitoring Progress; and
- Resolution of Senior Management's Acceptance of Risks.

Every three (3) years the Internal Auditing Department undergoes an external peer review to determine whether the department adheres to these Standards. The last Peer Review Report was issued in January 2009 and was included in the Internal Audit Annual Report which was listed on the agenda for the November 17, 2010 Audit and Compliance Committee meeting. The Peer Review Report is included in the Annual Report each year because it is required by the State Auditor's Office (SAO). A discussion followed.

On motion of Regent Monty, seconded by Regent Ray and by a unanimous vote of the committee members present, the Board of Regents' Internal Audit, Institutional Compliance and Identity Theft Program Policies – University of Houston System was approved by the committee and will be placed on the Consent Docket at the Board of Regents meeting on February 16, 2011 for final Board approval.

### **Information Items:**

#### 4. Internal Audit Report – Briefing Booklet – University of Houston System – Item E – AUDIT-3

This item referred to the Internal Audit Briefing Booklet. Thirteen (13) Internal Audit Reports were prepared since the November 17, 2010 Audit and Compliance Committee meeting stated Mr. Guyton; and 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 included in the Board-approved Audit Plan for FY2011 and included Departmental Compliance reviews of the University of Houston Division of Student Affairs and College of

Optometry; University of Houston-Victoria Finance and Administration, Provost and School of Nursing; University of Houston-Downtown University College and Academic Affairs and Provost; the Annual Football Attendance Audit; the Pell Grant Programs at the University of Houston-Clear Lake, University of Houston-Downtown and University of Houston-Victoria; Scholarship Administration at the University of Houston; and the Internal Audit Department's quarterly follow-up activity report. All reports are 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.

Eight (8) of these reports contain management action plans and were included in the Briefing Booklet. An overview of all of the recommendations by Internal Audit was also included in these reports.

Audit Report No. 2011-09, Internal Audit's follow-up report, addressed the status of thirty-eight (38) action items in twenty (20) individual audit reports. Internal Audit verified that eleven (11) of the action items had been implemented, twenty-six (26) partially implemented and one (1) not implemented. Updated management responses had been obtained on the partially implemented and not implemented action items. There were three (3) high risks items in this report that were partially implemented related to repairs, renovation and construction. Mr. Guyton noted that these should all be implemented by March 31, 2011. There was one (1) other high risk item in the report where the action had been completed related to research grants. A lengthy discussion followed regarding the letters following the action numbers which indicate the number of times management had changed its estimated implementation dates.

Audit Report Nos. 2011-05, 2011-12; 2011-13; 2011-14; and 2011-15 were Internal Audit's Departmental Compliance Reviews. Mr. Guyton noted that in their report on the Division of Student Affairs, Internal Audit identified a significant engagement observation of the need to implement a monitoring mechanism to help ensure that all required business administrative tasks had been performed. Similar observations on two (2) large colleges at the University of Houston had previously been reported and the Provost Business Manager had implemented a similar mechanism. The Division of Student Affairs plans to implement a similar mechanism.

Audit Report No. 2011-10 is Internal Audit's annual football attendance audit which is required by the NCAA. Mr. Guyton stated this report listed a table showing the paid attendance for each home game and this year's average of 22,603 which was the largest number since the NCAA began requiring this audit.

Audit Report Nos. AR2011-17 through AR2011-19 addressed general compliance reviews of the Pell Grant Programs at the University of Houston-Clear Lake, University of Houston-Downtown and the University of Houston-Victoria. The State Auditor's Office provides audit coverage for this program at the University of Houston. Mr. Guyton noted that each of these reports contained an opportunity for improvement in information technology controls. Internal Audit's Report No. AR2011-20 was a report on gifts and endowment scholarships administrated by the University of Houston Office of Scholarships and Financial Aid. Mr.

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Guyton noted that this report contained an opportunity for improvement in budgeting and awarding some of the available scholarship funds. A discussion followed.

Mr. Guyton stated that various scheduled audits were in the reporting, fieldwork in progress or in the planning phase; and these audits were included in the board-approved Internal Audit Plan for FY2011.

Internal Audit also has various special projects in progress. The State Auditor's Annual Statewide Audit is currently underway. The State Auditor's Office is completing its fieldwork for the University of Houston Federal Financial Assistance Programs; and they have also performed limited reviews of the University of Houston Federal Research and Development area and the University of Houston-Clear Lake Federal Financial Assistance Programs. In addition, the State Auditor's Office performed follow-up procedures on University of Houston-Downtown and University of Houston-Victoria's Federal Financial Assistance Programs. Mr. Guyton also noted that the State Auditor has drafted findings and recommendations for their report for the University of Houston, University of Houston-Downtown and University of Houston-Victoria. For the University of Houston, their recommendations address certain financial aid and research and development regulations and the statewide comprehensive annual report preparation. For the University of Houston-Downtown, their recommendations address certain financial aid regulations and the statewide comprehensive annual report preparation; and for the University of Houston-Victoria, their recommendations address certain financial aid regulations. The State Auditor's report should be issued sometime during the February-March 2011 timeframe.

The IRS Bond Audit was also listed in this section of the outline. On December 6, 2010, the University of Houston System received a letter from the IRS stating that the University of Houston System's Consolidated Revenue Bonds, Series 2002A had been selected for examination. Mr. Guyton noted that the issuance for \$130 million financed construction of the University of Houston M.D. Anderson Library expansion and Science and Engineering Building; the University of Houston-Downtown Commerce Street Building; the University of Houston-Clear Lake Student Services and Classroom Building; and the University of Houston-Victoria West Academic Building. The IRS routinely examines issuances of municipalities, governments and not-for-profits to test for compliance with Federal tax requirements. Mr. Guyton noted that the University of Houston is currently responding to the IRS's document requests.

The status of the Audit Plan was also addressed and Mr. Guyton noted that the shaded areas on the report had been completed and the footnotes indicated the status on the other areas.

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

5. Institutional Compliance Status Report for the Three Months Ended December 31, 2010 – University of Houston System, Item F – AUDIT - 4

Mr. Guyton presented this item which referred to the Institutional Compliance Status Report for the three months ended December 31, 2010. This report listed activities which included risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports.

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

6. External Audit Report – UH Athletics Department Independent Accountants’ Report on the Application of Agreed-Upon Procedures for Year Ended August 31, 2010 – University of Houston System, Item G – AUDIT – 5

Mr. Guyton presented this item and noted that an independent CPA’s report on the application of agreed-upon procedures of the Athletics Department for the year ended August 31, 2010 was completed which includes the statement of athletic revenues and expenses with related notes and summary of the auditor’s findings. The entire report can be viewed on the website of the UHS Internal Auditing Department at:

[http://www.uh.edu/audit/Documents/External\\_Reports/UH\\_Athletics\\_FY2010\\_Agreed\\_Upon\\_Procedures\\_Report.pdf](http://www.uh.edu/audit/Documents/External_Reports/UH_Athletics_FY2010_Agreed_Upon_Procedures_Report.pdf).

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

7. External Audit Report – UHS Public Broadcasting Basic Financial Statements and Independent Auditor’s Report for FY2010 and FY2009 – University of Houston System, Item H – AUDIT – 6

This report referred to the UHS Public Broadcasting Basic Financial Statements and Independent Auditor’s Report for FY2010 and FY2009 and was tabled to May 18, 2011 Audit and Compliance Committee meeting because these reports had not been received to date. It was noted that a partner from KPMG, the external auditing firm, would be attending the May 18, 2011 meeting.

A discussion followed. Regent Berry noted that we need to emphasize to our external auditors that we take the timeliness of receiving their reports seriously.

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

8. External Audit Report – UHS Endowment Fund, Financial Statements and Independent Auditor’s Report for FY2010 and FY2009 – University of Houston System, Item I – AUDIT – 7

Mr. Guyton referred to the External Audit Report on the UHS Endowment Funds for FY2010 and FY2009. This audit report is one of the requirements of a major donor and campaign during the early 90’s. The value of the Endowment Fund at August 31, 2010 was approximately \$465 million and it is currently valued over \$500 million. The external auditor issued a clean and unqualified opinion on these statements.

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

9. UHS Annual Financial Statements/Certifications – University of Houston System, Item J – AUDIT – 8

This item referred to the Certification of Annual Financial Statements for the University of Houston System institutions. The Audit Committee Planner, Item No. 3.13, requires that the UH System Chancellor and 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. Prior to the Chancellor and Executive Vice Chancellor for Administration and Finance signing the certifications, the following steps are taken:

- (a) University of Houston-Clear Lake (UHCL), University of Houston-Downtown (UHD) and University of Houston-Victoria (UHV) Chief Accounting Officers, Chief Financial Officers and Presidents certified that the financial reports for their campuses were true and correct to the best of their knowledge;
- (b) University of Houston (UH) and University of Houston System Administration (UHSA) administrators and unit heads representing 125 departments completed the FY2010 Department Fraud Risk Survey, which included questions about verifying cost center transactions, reporting instances of fraud and non-compliance, and other internal controls. Mr. Guyton noted that according to the survey results, internal controls were adequate to ensure that the financial transactions created for FY2010 by UH/UHSA departments were true and correct;
- (c) Mike Glisson, David Ellis, Tom Ehardt, Dr. Carl Carlucci and President Renu Khator signed the Certification Letter for UH, UHSA, and UH System Consolidated based on:
  - (1) department surveys, which indicate internal controls were adequate within UH and UHSA departments to ensure correct financial transactions;
  - (2) certifications signed by UHCL, UHD and UHV representatives; and
  - (3) their knowledge and review of the FY2010 Annual Financial Report for UH, UHSA and UH System Consolidated.

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

There being no further business to come before the committee the meeting adjourned at 9:32 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

Don Guyton

Raymond Bartlett

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Carl Carlucci  
John Antel  
Dona Cornell  
Spencer Yantis  
Barbara Stanley  
Wayne Beran  
Gerry Mathisen

Elaine Charlson  
Judy Young  
Jon Aldrich  
Craig Ness  
Monica McHenry  
T. J. Meagher

David Ellis  
Ed Jones  
Russ Hoskins  
Dan Wells  
Lauren Francis  
Marquette Hobbs