

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

December 9, 2008

The Chair, Dennis D. Golden, convened the meeting of the Audit & Compliance Committee of the University of Houston System Board of Regents, at 2:00 p.m., in the Melcher Board Room 100B, Athletics/Alumni Building, 3100 Cullen Boulevard, University of Houston, on Tuesday, December 9, 2008, with the following members present: Nelda L. Blair; Jacob M. Monty; and Welcome W. Wilson, Sr., Ex Officio.

Regent Golden turned the meeting over to Mr. Don Guyton, Director of Internal Auditing. Mr. Guyton stated there was one open point from the last Audit Committee meeting, an Annual Conflict of Interest Statement for the members of the Board of Regents. This issue was presented for consideration under one of the four action items below that Mr. Guyton presented to the committee for approval.

Action Items

1. Review and Approval of Audit Report and Financial Statements, University of Houston Charter School, FY 2008 – University of Houston.

Approval was requested for the Audit Report and Financial Statements of the University of Houston Charter School for FY 2008 which is a requirement of the Texas Education Code, Title 2, Chapter 44, Section 44.008(d). These approved financial statements will be submitted to the TEA in January 2009.

2. BOR Policy Revision – Code of Ethics - UH System

The purpose of this proposed revision to the policy was to require an additional conflict of interest certification by members of the Board affirming their compliance with their official oath and specific provisions of Texas statutes related to ethical behavior.

3. BOR Conflict of Interest Certification Statement – UH System

This annual certification affirms the Board members' compliance with their official oath and specific provisions of Texas statutes related to ethical behavior, audit and compliance committee planner. This was drafted by Ms. Dona Cornell, General Counsel for the University of Houston System.

4. Board of Regents Policy – Identity Theft Program – UH System

The Federal Trade Commission issued a regulation known as the Red Flag Rule under Sections 114 and 315 of the Fair and Accurate Credit Transactions Act. The Red Flag Rule was intended to reduce the risk of identity theft by requiring institutions to implement an Identity Theft Prevention Program that included reasonable policies and procedures to detect or mitigate identity theft. Mandatory compliance with the Red Flag Rule requires the Board of Regents to approve the initial written program. The purpose of this policy was to establish the framework for the Identity Theft Prevention Program and to provide the necessary approval of the program by the Board of Regents. The Red Flag Rule allows the Board to delegate the responsibility for the program to the Chancellor.

Regent Monty moved committee approval of the four action items as presented. Regent Blair seconded the motion. These items will be presented to the Board for final approval at the December 16, 2008 Board of Regents meeting.

The next item presented was the Internal Audit Report – Briefing Booklet – UH System.

Mr. Guyton briefed the Board on this report. He stated that 10 internal audit reports had been prepared since the committee met in August. These reports addressed areas included in the Board-approved audit plan for fiscal year 2008 and 2009 and included reviews of one UH College and one UH-Downtown College; two programs at UH and UH-Downtown; consumable/resale inventory; the Chancellor and the Board of Regents travel and entertainment expenditures and non-compliance areas throughout the system. Also included in the report was a briefing booklet on the Internal Audit Department's Quality Assurance Program. This review was required by the Standards for the Professional Practice of Internal Auditing and was a prerequisite for an external peer review of the department.

Mr. Guyton introduced the members of the external peer review team:

- Dick Dawson, Executive Director, Audit, Compliance & Risk Services, UTSA;
- Mike Hill, Chief Audit & Compliance Officer, Office of Institutional Audit & Compliance, Medical College of Georgia; and
- Doug Horr, Director of Audit Services, Stevens Institute of Technology.

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's Office, as required by the Texas Government Code.

Mr. Guyton addressed the status of 42 action items from 11 individual audit reports. Internal Audit verified that 28 of the action items had been implemented; 13 partially implemented; and one not implemented. Internal Audit did obtain updated management responses on the partially implemented and not-implemented actions. There were three high risk items in the report and they were in the process of being implemented. These

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relate to the repair of the Moody Towers exterior walls, modifications to the system policy on facilities, and refunding over-awards of federal financial aid.

There were also various scheduled audits in the reporting, fieldwork in progress or in the planning phase and these were included in the Board approved internal audit plans for fiscal year 2008 and 2009.

Mr. Guyton stated there were also various Special Projects in Progress. The State Auditor's Office was in the process of conducting their fieldwork for the annual statewide audit at the University of Houston. The University of Houston's financial aid programs will be included in the scope of their work as they do each year. Our external auditors, McConnell & Jones, are conducting the fieldwork on the annual audits of KUHT and KUHF, Endowment Fund, and the agreed-upon procedures for Athletics. This item was presented for information only and required no action by the committee.

Mr. Guyton moved to the next item on the agenda, Institutional Compliance Status Report for the Three Months Ended September 30, 2008 – UH System. This report summarized the information provided by each institution for their respective compliance functions which included risk assessments, compliance audits, compliance committee meetings, risk mitigation, and hot-line reports. This item was for information only and required no action by the committee.

The next item presented to the committee by Mr. Guyton was the External Audit Reports – UH System:

- (1) SAO Report No. 09-002 – Student Fees at Selected Higher Education Institutions (excerpts); and
- (2) SAO Report No. 09-009 – Campus Safety and Security Emergency Management Plans (excerpts).

Excerpts from the first report related to the State Auditor's report on Student Fees at Selected Higher Education Institutions and the University of Houston, Texas Tech, Sam Houston State, UTSA, and the University of North Texas were included in the scope of their work.

Excerpts from the second report related to the State Auditor's report on Campus Safety and Security Emergency Management Plans at Texas Public Universities. The University of Houston had been selected for a site visit during this engagement and all Texas public universities were requested to complete the State Auditor's survey and provide additional information. This item was for information only and required no committee action.

Next item presented by Mr. Guyton was the Ethics and Conflict of Interest Policies – UH System. In the Audit Committee Charter and Checklist, an annual review of these policies is required. Mr. Guyton stressed the importance of these policies for all institutions and the fact that they were required in order to have effective compliance programs. There are some federal agencies such as NSF, NIH, Department of Agriculture, and the Department of Energy that require conflicts of interest policies as

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part of the terms and conditions of awards. This item was for information only and required no action by the committee.

The Annual Fraud Prevention and Awareness Report – UH System was the next item presented to the committee. The committee is required 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 related to preventing, detecting and eliminating fraud, waste and abuse. The report detailed each campus's comments on the status of their fraud prevention and awareness programs. These reports were completed using an online delivery mechanism for the fourth time; and for the second year in a row, all UH System employees will complete online Fraud Prevention and Awareness Training and Code of Ethics training. This item was presented for information only and required no action by the committee.

The final item presented to the committee was the Update on Analyses conducted at UH associated with the "Breakthrough Solutions"- University of Houston. Mr. Guyton turned the meeting over to Dr. Elaine Charlson, who gave a brief report to the committee on this item. She stated that on May 21, 2008, the Governor had invited the Board of Regents to a Higher Education Reform Summit. At the meeting, Mr. Jeff Sandefer had led a discussion concerning the seven "Breakthrough Solutions" for higher education reform. On June 10, 2008, a Special Called Board of Regents meeting was held and Mr. Sandefer gave a report presenting his recommendations.

The university has many recurring processes and initiatives underway which are consistent with these solutions, but appropriate modifications are being considered. The recommendations submitted by Mr. Sandefer and the report prepared by the Pappas Consulting Group were given to the regents for review in August, and in many cases, mirrored each other, but with the UH System perspective. Dr. Charlson was asked to respond to two of the consultants recommendations dealing with Mr. Sandefer's "breakthrough solution #3" which was to split research and teaching budgets to preserve excellence.

Dr. Charlson stated that the first consultant recommendation had been to examine the distribution of faculty merit raises; the ideal being to have a bell-shaped curve with some faculty receiving zero increases, some receiving rather high increases, and most being somewhere between those two extremes. Dr. Charlson showed that the raise distribution curves for each of the tenure track ranks were roughly bell-shaped. The second consultant recommendation had been to examine the faculty workload policy which included teaching, research and service to determine whether it met state requirements.

A task force was formed of faculty, chaired by a dean, and assisted by a member of the General Counsel's staff to interpret the various policies and rules, to review the Texas Education Code, the Coordinating Board Guidelines, the Board of Regents Policy Statement about workload, and the university's academic workload policy.

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Dr. Charlson emphasized the difference between community colleges, vocational schools, among others, and research universities like the University of Houston. She referred to the Boyer Report called *Reinventing Undergraduate Education: A Blueprint for America's Research Universities*. This report was generated by the National Commission on Educating Undergraduates in the Research Community appointed by the Carnegie Foundation for the Advancement of Teaching. A goal of that effort was to examine the challenges related to undergraduate education at research universities in order to be certain that the undergraduates receive "an education that while providing the essential features of general education, also introduced them to inquiry-based learning, in other words, introduce students to research and scholarship."

Dr. Charlson further stated that at a research institution such as ours, students should be taught by those who discover, create and apply, as well as transmit insights about subjects in which the teachers are experts. She emphasized that the types of students who choose to attend a tier one university would want to be taught by faculty who are at the cutting edge of discovery in their disciplines. The University of Houston hires faculty who are committed to the education of students. First and foremost, they want to be teachers; but see as part of the education process, the need to expose students to the process of discovering new knowledge.

While research and scholarship are key factors in the promotion and tenure process of faculty, Dr. Charlson also stressed that faculty are not granted tenure unless there is evidence they are excellent teachers. There are no across the board raises for faculty; they are all merit-based.

Dr. Charlson reiterated that a task force has been established to review the Academic Workload Policy. This policy can be found in the Faculty Handbook and describes an average course load (9 semester credit hours) that a department should generate. There are aspects of it that give credit for research and service; inflators for large classes and graduate classes and deflators for very small classes. There is also comparative data available from a number of sources: Faculty Productivity Index; Stoneybrook Productivity Index; and comparative data from UT, Texas A&M and Texas Tech compiled by the Texas Higher Education Coordinating Board.

This item was for information only and required no action by the committee. A copy of the complete presentation was filed in the Board office.

Mr. Guyton concluded the meeting by stating that the Board of Regents policy and the Texas Internal Auditing Act, Texas Government Code, Section 2102.11, requires the internal audit program to conform to the *Standards for the Professional Practice of Internal Auditing*, 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 meeting will be scheduled for the December 16, 2008 Board of Regents meeting.

There being no further business to come before the committee, the meeting was adjourned at 3:30 p.m.

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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.

Others Present:

Carl Carlucci
Dona Cornell
Grover Campbell
Elwyn Lee
John Walsh
Doug Horr

Don Guyton
Ed Hugetz
Ed Jones
Elaine Charlson
Dick Dawson
Marquette Hobbs

Diane Murphy
Russ Hoskins
Malcolm Davis
Mike Emery
Mike Hill
Gerry Mathisen