
SECTION A-2

BOARD OF REGENTS POLICY – AUDIT AND COMPLIANCE

Section V-Audit and Compliance

41 AUDIT AND COMPLIANCE

41.01 Internal Auditing

To develop a framework for the implementation of the internal audit function within the System, and to define the scope of the internal audit function as an effective management tool for use by the Chancellor and the Board in evaluating the System's fiscal integrity and compliance with the Texas Internal Auditing Act, Texas Government Code, Section 2102, applicable state and federal laws and with approved Board policies, the Board adopts the following policy (which serves as the Internal Audit Charter):

41.01.1 Purpose and Mission

- A. A primary responsibility of the Board is to ensure the legal and fiscal integrity of the System. To that end, the Board directs the Department of Internal Auditing to perform those audit activities necessary to assure that the System's resources are being properly managed and accounted for and that the institution is complying with approved policies and statutory requirements.
- B. Internal audits are resource tools for management and enable the System to monitor the effectiveness with which policies are followed, objectives met, and control Systems function.
- C. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the System's operations. The mission of Internal Auditing is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. 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, including those related to contracts.
- D. In carrying out their duties and responsibilities, members of the Department of Internal Auditing will have full, free, and unrestricted access to all System activities, records, property, and personnel. The Department of Internal Auditing may also request access

to the financial records of private support organizations and foundations chartered for the benefit of the University of Houston System or any part thereof.

41.01.2 Authority

- A. The Chief Audit Executive will report directly to the chair of the Audit and Compliance Committee of the Board, and have access to the Chancellor.
- B. The Board is responsible for the employment, evaluation, dismissal, and remuneration of the Chief Audit Executive; however, the Chancellor has the authority to make recommendations to the Board on the employment, evaluation, dismissal, and remuneration of the Chief Audit Executive.
- C. The Department of Internal Auditing will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing (Standards)*, and the Definition of Internal Auditing. The Department of Internal Auditing will also perform its duties in accordance with generally accepted government auditing standards.
- D. The Chief Audit Executive will report periodically to senior management and the audit and compliance committee regarding:
 - The Department of Internal Auditing's purpose, authority, and responsibility.
 - The Department of Internal Auditing's plan and performance relative to its plan.
 - The Department of Internal Auditing's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
 - Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the audit and compliance committee.
 - Results of audit engagements or other activities.
 - Resource requirements.
 - Any response to risk by management that may be unacceptable to the University of Houston System.
- E. The Core Principles for the Professional Practice of Internal Auditing are:
 - Demonstrates integrity.
 - Demonstrates completeness and due professional care.
 - Is objective and free from undue influence (independent).

- Aligns with the strategies, objectives, and risks of the organization.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organizational improvement.

41.01.3 The Internal Auditing Process

- A. In August of each year, the Department of Internal Auditing will present to the Audit and Compliance Committee an annual internal audit plan and risk assessment for the Board's review and approval. This plan will include a summary of the resources dedicated to the Internal Audit program in order for the board to determine if adequate resources exist to ensure that risks identified in the risk assessment are adequately covered within a reasonable time frame. The plan will include risk-based testing of contract administration.
- B. The Chief Audit Executive will meet with the Chancellor on a regular basis to review audits performed, audits in progress, future audits, and special investigations.
- C. The Chief Audit Executive will meet with the chair of the Audit and Compliance Committee on a regular basis to review audits performed, audits in progress, future audits, and special investigations.
- D. Internal Audit reports will be distributed to the Chancellor, members of the Board of Regents, the State Auditor, the Governor's Office of Planning and Budgeting, the Legislative Budget Board and the Sunset Advisory Commission, as required by the Texas Government Code, Section 2102.
- E. Internal Audit's written responses to the State Auditor's Office's requests of Internal Audit to investigate reports of suspected fraud, waste, abuse and/or ineffective operations at the University of Houston System will be distributed to the Chair of the Audit and Compliance Committee and the Chancellor.

41.01.4 Independence and Objectivity

- A. The Chief Audit Executive will ensure that the Department of Internal Auditing remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection,

- scope, procedures, frequency, timing, and report content. If the Chief Audit Executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.
- B. Internal audit personnel will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgement on audit matters to others.
 - C. The Department of Internal Auditing will be free of all operational and management responsibilities that would impair the ability to make independent reviews of all aspects of the System.
 - D. Internal audit personnel will disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
 - E. The Chief Audit Executive will confirm to the Audit and Compliance Committee, at least annually, the organizational independence of the Department of Internal Auditing.
 - F. The Chief Audit Executive will disclose to the Audit and Compliance Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.
 - G. Where the Chief Audit Executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

41.01.5 Scope of Internal Auditing

The internal audit activity evaluates and contributes to the improvement of the System's risk management, control and governance systems by addressing the following objectives:

- A. **Risk Management:** Internal audit activity will assist the System by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.
- B. **Control:** Internal audit activity will assist the System in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.
- C. **Governance:** Internal audit activity will contribute to the System's governance process by evaluating and improving the process through which 1. values and goals are

- established and communicated, 2. the accomplishment of goals is monitored, 3. accountability is ensured, and 4. values are preserved.
- D. The internal audit activity will evaluate risk exposures and adequacy and effectiveness of controls relating to the System's governance, operations and information systems regarding the:
- Reliability and integrity of financial and operational information
 - Effectiveness and efficiency of operations
 - Safeguarding of assets
 - Compliance with policies, procedures, laws, regulations, and contracts
 - Achievement of strategic objectives
 - Results of operations or programs are consistent with established goals and objectives
- Identified opportunities for improvement for these areas during the engagements will be communicated to the appropriate level of management.
- E. The Department of Internal Auditing will coordinate audit efforts with those of external CPA firms and the State Auditor's Office.
- F. The Department of Internal Auditing will investigate reports of suspected defalcation, misappropriation or other fiscal irregularities.
- G. The Department of Internal Auditing will follow up on engagement findings and corrective actions, and report periodically to senior management and Audit and Compliance Committee any corrective actions not effectively implemented.

41.01.6 Quality Assurance and Improvement Program

- A. The Department of Internal Auditing will maintain a quality assurance and improvement program that covers all aspects of the internal auditing activity. The program will include an evaluation of the Department of Internal Auditing's conformance with the *Standards* and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the Department of Internal Auditing and identify opportunities for improvement.
- B. The Chief Audit Executive will communicate to senior management and the Audit and Compliance Committee on the Department of Internal Auditing's quality assurance and improvement program, including results of internal assessments and external assessments.

Policy last updated 03/08/18

Related Statutes, Policies, or Requirements

Texas Government Code § 321.0136 – *Investigation*

Texas Government Code, Chapter 2102.001 – *Texas Internal Auditing Act*

Texas Education Code § 51.9337 – *Purchasing Authority Conditional; Required Standards*

The Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing and Code of Ethics - <http://www.theiia.org/guidance/standards-and-guidance/ippf/>.

U.S. Government Accountability Office, Government Auditing Standards (The Yellow Book) - <http://www.gao.gov/new.items/d07731g.pdf>.

System Administrative Memoranda (SAMs)

01.C.04 – *Reporting/Investigating Fraudulent Acts*

04.A.01 – *Audits by External Auditors*

04.A.02 – *Audits by Internal Auditing*

42 COMPLIANCE

42.01 Institutional Compliance

The Chancellor, as chief executive officer of the System, is responsible for ensuring the implementation of an institutional compliance program for the System.

Accordingly, the System-wide Compliance Officer prepares an executive summary of all institutional compliance activity of the component institutions.

42.01.1 System-Wide Compliance Officer

The System-wide Compliance Officer is responsible, and will be held accountable for, apprising the Chancellor and the Audit and Compliance Committee of the institutional compliance functions and activities at each of the component institutions as set out in Subparagraph B, below. The System-wide Compliance Officer provides institutional compliance assistance to the Chancellor and the Vice Chancellors in the exercise of their responsibilities.

A. **Appointment:** The System-wide Compliance Officer shall be appointed by the Chancellor. The System-wide Compliance Officer is the senior compliance

official of The University of Houston System, provides assistance and advice covering all component compliance programs, and shall hold office without fixed term, subject to the pleasure of the Chancellor.

B. Duties and Responsibilities: The primary responsibilities of the System-wide Compliance Officer include developing an infrastructure for the effective operation of The University of Houston System Institutional Compliance Program; chairing the System-wide Compliance Officers Council; and prescribing the format for the annual risk-based compliance plan and the quarterly compliance status reports to be submitted by each component institution.

(Policy last reviewed 03/8/2018)

Related Statutes, Policies or Requirements

Texas Education Code § 51.971 – *Compliance Program*

42.02 Identity Theft Prevention Program

The Chancellor, as Chief Executive Officer of the System, is responsible for ensuring the implementation of an identity theft prevention program which adheres to the Federal Trade Commission's Red Flag Rule under sections 114 and 315 of the Federal Fair and Accurate Credit Transactions Act. At least annually, the System-wide compliance officer prepares an executive summary of all activities of the Identity Theft Prevention Programs of the component institutions.

(Policy last reviewed 03/8/2018)

Related Statutes, Policies or Requirement

Federal Fair and Accurate Credit Transactions Act, Pub.L. 108-159.
Federal Trade Commission Red Flag Rule, 16 C.F.R. § 681.2.

System Administrative Memoranda (SAMs)
01.C.14 – Identity Theft
