



Report to the Audit and Compliance Committee of the  
UHS Board of Regents on:

The University of Houston System Compliance with Education Code 51.9337  
AR2022-09

UNIVERSITY of **HOUSTON** SYSTEM  
INTERNAL AUDITING DEPARTMENT

**UNIVERSITY OF HOUSTON SYSTEM  
COMPLIANCE WITH TEXAS EDUCATION CODE §51.9337**

**TABLE OF CONTENTS AND SUMMARY**

**EXECUTIVE SUMMARY ..... 2**

**INTRODUCTION..... 3**

**BACKGROUND ..... 3**

**COMPLIANCE EXHIBIT..... 4**

# EXECUTIVE SUMMARY

## Overview and Scope Summary

Texas Education Code §51.9337 requires the chief auditor of an institution of higher education to annually assess whether the institution has adopted the rules and policies required by this section and shall submit a report of findings to the state auditor. This code requires the System to establish policies and procedures for:

- Code of ethics
- Code of conduct
- Conflict of interest
- Investigations
- Purchasing requirements and guidelines
- Contracting requirements and guidelines
- Standards for conducting audits

## Observations and Overall Audit Opinion:

During audit, the Internal Auditing Department evaluated University of Houston System policies to determine if required policies and procedures had been established to ensure compliance with Texas Education Code §51.9337. We found the University of Houston System has established policies and procedures to comply with Texas Education Code §51.9337. Please see the Compliance Exhibit below for specific references related to policies and procedures associated with compliance areas of the code.

# ANALYSIS OF COMPLIANCE WITH TEXAS EDUCATION CODE §51.9337

## INTRODUCTION

Texas Education Code §51.9337 provides purchasing authority to higher education institutions conditioned upon compliance with the establishment of the standards set forth in the code. The standards in the code focus upon establishing policies and procedures related to a code of ethics, code of conduct, internal investigations, contract and purchasing procedures, guidelines, and training; internal audit standards; conflict of interest, etc.

In addition, Texas Education Code §51.9337 requires the chief auditor of an institution of higher education to annually assess whether the institution has adopted the rules and policies required by this section and shall submit a report of findings to the state auditor.

The Department of Internal Auditing developed an annual audit plan based upon a system-wide risk assessment to identify significant areas of risk facing the System. Also included in the audit plan are legislatively required audits. All the audits on the plan are conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and International Standards for the Professional Practice of Internal Audit, published by the Institute of Internal Auditors (IIA).

## BACKGROUND

Texas Education Code §51.9337 was added with the passing of Senate Bill 20 during the Texas 84<sup>th</sup> Legislature and became effective September 1, 2015.

## OBJECTIVE AND SCOPE

Texas Education Code §51.9337 requires the chief auditor of an institution of higher education to annually assess whether the institution has adopted the rules and policies required by this section and shall submit a report of findings to the state auditor. Policies and procedures must address the following:

- Code of Ethics
- Code of Conduct
- Conflicts of Interest
- Purchasing Requirements and Guidelines
- Contract Requirement and Guidelines
- Audits and Investigations

Information relevant to this audit was obtained through:

- Interviewing university personnel
- Reviewing UHS policies and procedures
- Data obtained from PeopleSoft queries

## **COMPLIANCE EXHIBIT**

On the next page is a Compliance Exhibit representing the requirements of Texas Education Code §51.9337 and the policies and procedures implemented by the University of Houston System in response to the code.

**UNIVERSITY OF HOUSTON SYSTEM INTERNAL AUDITING DEPARTMENT  
REVIEW OF COMPLIANCE WITH EDUCATION CODE §51.9337**

<b>Requirement of Education Code 51.9337</b>		<b>System Policies Implemented</b>
<b>The board of regents of an institution of higher learning by rule shall establish for each institution under the management and control of the board:</b>		
(1)	a code of ethics for the institution's officer and employees, including provisions governing officers and employees authorized to execute contracts for the institution or to exercise discretion in awarding contracts, subject to Subsection (c).	Board Policy 57.01 – Code of Ethics System Administrative Memorandum 02.A.29 – Ethical Conduct of Employees
(2)	<p>Policies for the internal investigation of suspected defalcation, misappropriation, and other fiscal irregularities and an institutional or system wide compliance program designed to promote ethical behavior and ensure compliance with all applicable policies, laws, and rules governing higher education, including research and health care to the extent applicable.</p> <p><b>The board of regents of an institution of higher learning by rule shall establish for each institution under the management and control of the board:</b></p>	<p>Board Policy 41.01 – Scope of Internal Audit Board Policy</p> <p>42.01 – Institutional Compliance</p> <p>Board Policy 42.01.1 – System-Wide Compliance Officer</p> <p>System Administrative Memorandum 01.G.01 – Sponsored Research Activities</p>
(3)	a contract management handbook that provides consistent contracting policies and practices and contract review procedures, including a risk analysis procedure, subject to Subsection (d).	<p>Board Policy 55.01.5 - Contract Administration</p> <p>System Administrative Memorandum 03.A.05 - Contract Administration</p> <p>System Administrative Memorandum 03.B.01 - Purchasing</p> <p>UHS Purchasing Guidelines</p> <p>UHS Contract Administration Guide</p>

**UNIVERSITY OF HOUSTON SYSTEM INTERNAL AUDITING DEPARTMENT**  
**REVIEW OF COMPLIANCE WITH EDUCATION CODE §51.9337**

<b>Requirement of Education Code 51.9337</b>		<b>System Policies Implemented</b>
(4)	contracting delegation guidelines, subject to Subsections (e) and (f).	Board Policy 55.01.02 – Delegation of Authority for Contract Requiring Board Approval
(5)	training for officers and employees authorized to execute contracts for the institution or to exercise discretion in awarding contracts, including training in ethics, selection of appropriate procurement methods, and information resources purchasing technologies.	Board Policy 55.01.5 - Contract Administration System Administrative Memorandum 03.A.05 – Contract Administration UHS Purchasing Guidelines
(6)	Internal audit protocols, subject to Subsection (g).	Board Policy 41.01 – Internal Auditing
<b>The Code of ethics governing an institution of higher education must include:</b>		
(1)	general standards of conduct and a statement that each officer or employee is expected to obey all federal, state, and local laws and is subject to disciplinary action for a violation of those laws.	Board Policy 57.01 – Code of Ethics System Administrative Memorandum 02.A.29 – Ethical Conduct of Employees
(2)	policies governing conflicts of interest, conflicts of commitment, and outside activities, ensuring that the primary responsibility of officers and employees is to accomplish the duties and responsibilities assigned to that position.	Board Policy 57.02 - Consulting and Paid Professional Service Board Policy 57.08 - Conflict of Interest System Administrative Memorandum 02.A.29 – Ethical Conduct of Employees System Administrative Memorandum 02.A.08 – Consulting and Paid Professional Service

**UNIVERSITY OF HOUSTON SYSTEM INTERNAL AUDITING DEPARTMENT**  
**REVIEW OF COMPLIANCE WITH EDUCATION CODE §51.9337**

<b>Requirement of Education Code 51.9337</b>	<b>System Policies Implemented</b>
<p>(3) a conflict of interest policy that prohibits employees from having a direct or indirect financial or other interest, engaging in a business transaction or professional activity, or incurring any obligation that is in substantial conflict with the proper discharge of the employee's duties related to the public interest.</p>	<p>Board Policy 57.02 - Consulting and Paid Professional Service            Board Policy 57.08 - Conflict of Interest            System Administrative Memorandum 02.A.29 – Ethical Conduct of Employees            System Administrative Memorandum 02.A.08 – Consulting and Paid Professional Service</p>
<p>(4) a conflict of commitment policy that prohibits an employee's activities outside the institution from interfering with the employee's duties and responsibilities to the institution.</p>	<p>Board Policy 57.02 - Consulting and Paid Professional Service            Board Policy 57.08 - Conflict of Interest            System Administrative Memorandum 02.A.29 – Ethical Conduct of Employees            System Administrative Memorandum 02.A.08 – Consulting and Paid Professional Service</p>
<p>(5) a policy governing an officer's or employee's outside activities, including compensated employment and board service, that clearly delineates the nature and amount of permissible outside activities and that includes processes for disclosing the outside activities and for obtaining and documenting institutional approval to perform the activities.</p>	<p>Board Policy 57.02 Consulting and Paid Professional Service</p>



**UNIVERSITY OF HOUSTON SYSTEM INTERNAL AUDITING DEPARTMENT**  
**REVIEW OF COMPLIANCE WITH EDUCATION CODE §51.9337**

<b>Requirement of Education Code 51.9337</b>		<b>System Policies Implemented</b>	
(6)	a policy that prohibits an officer or employee from acting as an agent for another person in the negotiation of the terms of an agreement relating to the provision of money, services, or property to the institution.	Board Policy 57.02 Consulting and Paid Professional Service	
(7)	a policy governing the use of institutional resources.	Board Policy 57.08 – Conflict of Interest	
(8)	a policy providing for the regular training of officers and employees on the policies described by this subsection.	Board Policy 57.01 – Code of Ethics	
<b>An institution of higher education shall establish contract review procedures and a contract review checklist that must be reviewed and approved by the institution’s legal counsel before implementation. The review procedures and checklist must include:</b>			
(1)	a description of each step of the procedure that an institution must use to evaluate and process contracts.	Board Policy 55.01.5 – Contract Administration  System Administrative Memorandum 03.B.01- Purchasing Guidelines  System Administrative Memorandum 03.A.05 – Contract Administration  UHS Purchasing Guidelines  UHS Contract Administration Guide	
(2)	a checklist that describes each process that must be completed before contract execution.	Board Policy 55.01.5 – Contract Administration  System Administrative Memorandum 03.A.05 – Contract Administration  Contract Management Handbook/Checklist	

**UNIVERSITY OF HOUSTON SYSTEM INTERNAL AUDITING DEPARTMENT**  
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Requirement of Education Code 51.9337	System Policies Implemented
(3) a value threshold that initiates the required review by the institution’s legal counsel unless the contract is a standard contract previously approved by the counsel.	System Administrative Memorandum 03.A.05 – Contract Administration  UHS Purchasing Guidelines  UHS Contract Administration Guide

**An institution of higher education’s policies governing contracting authority must clearly specify the types and values of contracts that must be approved by the board of regents and the types and values of contracts for which contracting authority is delegated by the board to the chief executive officer and by the chief executive officer to other officers and employees of the institution. An officer or employee may not execute a document for the board unless the officer or employee has authority to act for the board and the authority is exercised in compliance with applicable conditions and restrictions.**

Board Policy 55.01.1 - Board Approval
Board Policy 55.01.2 - Delegation of Authority for Contracts Requiring Board Approval
Board Policy 55.01.3 – Delegation of Authority for Contracts not Requiring Board Approval
System Administrative Memorandum 03.A.05 – Contract Administration
UH Contract Administration Guide

**UNIVERSITY OF HOUSTON SYSTEM INTERNAL AUDITING DEPARTMENT  
REVIEW OF COMPLIANCE WITH EDUCATION CODE §51.9337**

<b>Requirement of Education Code 51.9337</b>	<b>System Policies Implemented</b>
<p><b>An institution of higher education may not enter into a contract with a value of more than \$1 million, including any amendment, extension, or renewal of the contract that increases the value of the original contract to more than \$1 million, unless the institution’s board of regents approves the contract, expressly delegates authority to exceed that amount, or expressly adopts an exception for that contract. The board must approve any amendment, extension, or renewal of a contract with a value that exceeds 25% of the value of the original contract approved by the board unless the authority to exceed the approved amount is expressly delegated by the board or an exception is expressly adopted by the board for that contract.</b></p>	
<p>Board Policy 55.01.1 – Board Approval  System Administrative Memorandum 03.A.05 – Contract Administration</p>	
<p><b>The board of regents of an institution of higher education shall adopt standards for internal audits conducted by the institution to provide a systematic, disciplined approach to evaluate and improve the effectiveness of the institution’s risk management, control, and governance processes related to contracts and to require risk-based testing of contract administration. The internal auditor must have full and unrestricted access to all institutional property, personnel, and records. An internal auditor must report directly to the board of regents in accordance with Chapter 2102, Government Code.</b></p>	
<p>Board Policy 41.01 – Internal Auditing</p>	

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The UHS Department of Internal Auditing would like to thank the UHS Universities for their cooperation and assistance during this audit process.

Sincerely,

Phillip W. Hurd  
Chief Audit Executive  
University of Houston System

PWH/pwh/Texas Education Code §51.9337

Participating Auditors: Brandee O'Neal and Emily Tran