

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

February 10, 2010

The Chair of the Committee, Jacob M. Monty, convened the meeting of the Audit and Compliance Committee of the University of Houston System Board of Regents, at 11:05 a.m., in the Athletics/Alumni Center, Melcher Board Room 100B, University of Houston, 3100 Cullen Boulevard, Houston, Texas, on Wednesday, February 10, 2010. The following committee members were present: Jacob M. Monty, Chair; Nandita V. Berry, Vice Chair; and Welcome W. Wilson, Sr., Ex Officio. Regent Mica Mosbacher was unable to attend the meeting.

Regent Monty stated there would be six items presented to the committee: one required committee approval and the remaining five items were for information only and required no committee action. Regent Monty turned the meeting over to Mr. Don Guyton, Chief Audit Executive, who presented these items before the committee.

Mr. Guyton stated there were two open points from the November 5, 2009 Audit and Compliance Committee meeting. In that meeting, the Internal Audit Plan status and the Ethics Policies of the UH System institutions were discussed. An analysis of the Audit Plan status was included in the Internal Audit Briefing Booklet and would be addressed under agenda item Audit – 4. Mr. Guyton stated that for the November 2010 presentation of Ethics Policies, they plan to prepare a report which would summarize the content of each of the UHS institutions' Ethics Policies and any significant changes to those policies during the prior year.

Mr. Guyton then moved to the first agenda item, Review and Approval of Audit Report and Financial Statements, University of Houston Charter School, FY 2009 – University of Houston. This item was tabled; the financial statements had not been finalized. This point will be placed on the agenda for the Board of Regents meeting scheduled for February 16, 2010, if the financial statements are available.

The following agenda items presented to the committee by Mr. Guyton were for information only and required no committee action.

Information Items:

1. Institutional Compliance Status Report for the Three Months Ended December 31, 2009 – UH System

This refers to the Institutional Compliance Status Report for the three months ended December 31, 2009. The activities included risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports. Mr. Guyton stated that on the top of page two of the report, there was a table that summarized each institution's mandatory training status. There are five state and system-wide mandated

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training/reporting requirements that all employees must fulfill on an annual or bi-annual basis; and to make this process as convenient as possible, these courses are available to all employees in an online format and can be accessed 24 hours a day, seven days a week.

State mandated training consists of the following courses:

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

System-wide Annual Training/Reporting Requirements are listed below:

- 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 RP 36. 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 RP 36.
- External Consulting and Related Party Disclosure, which is 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.

At the University of Houston main campus, there are also requirements for certain classes of employees to complete role-based credit card and cash handling training.

2. External Audit Reports – UH System – UH Athletics Department Independent Accountants' Report on the Application of Agreed-Upon Procedures for Year Ended August 31, 2009 (excerpts)

Mr. Guyton stated the independent CPA's report on the application of agreed-upon procedures of the Athletics Department for the year ended August 31, 2009 had not been finalized so this item will be tabled and placed on the agenda for the Audit and Compliance Committee meeting scheduled for May 12, 2010.

3. Internal Audit Report – Briefing Booklet – UH System

This report contained an activity outline and an Audit Plan Status Report as of January 15, 2010. There were eight Internal Audit Reports prepared and the executive summaries of these reports were addressed. These reports were included in the Board-approved Audit Plan for FY2009 and FY2010 and include four departmental reviews at University of Houston, UH-Clear Lake and UH-Downtown; the annual football attendance audit; reviews of two support organizations; and a status report on Internal Audit's follow-up activity. Mr. Guyton stated 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 the Texas Government Code. Some of these reports contain management action plans and were included in the Briefing Booklet. An overview of all of Internal Audits recommendations was also included in these reports.

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Audit Report No. 2010-08, was a follow-up report and addressed the status of 169 action items in 15 individual audit reports. Internal Audit verified that 120 of the action items have been implemented, 46 partially implemented, and 3 were not implemented. Updated management responses were obtained on the partially implemented and no implemented action items. There were 12 high risk items in the report and seven have been implemented. The remaining five high risk areas are supposed to be implemented by April 30, 2010. These items relate to the UH College of Liberal Arts and Social Sciences, the Calhoun Lofts construction audit, and the special project on Job Order Contracting. Internal Audits Report on the departmental reviews contained no significant issues.

Internal Audits Reports on the two support organizations identified situations where the amounts reported for university support in the support organizations' financial statements and tax returns did not agree to the corresponding amounts recorded in the university's financial records. Internal Audit recommended that policies and procedures be implemented to help ensure that all reported support to the university was properly accounted for in the university's financial records. Management has already started to address this issue. Internal Audit also recommended that the university request the UH Alumni Organization to convert its year-end to the university's fiscal year-end.

As reported in items 2, 3 and 4 of the activity outline, Internal Audit has various scheduled audits in the reporting, fieldwork in progress, or in the planning phase. These audits were included in the Board-approved Internal Audit Plan for FY2009 and FY2010.

Under item 5, Internal Audit has various Special Projects in Progress. The State Auditor's Office is currently conducting its fieldwork for the FY2009 statewide audit. Included in their audit is a full-scope review of Federal Title IV financial aid programs at UH and a limited review of the same programs at UH-Clear Lake. UH receives a full-scope review every year while the other institutions are on a rotating basis. Internal Audit did receive the draft findings from the State Auditor this year related to the federal financial aid programs and financial report presentation for specific items for UH and UH-Clear Lake. The auditors also focused on the information technology area in the financial aid system for two institutions.

Various construction auditors have been engaged by Facilities, Planning and Construction for the various construction projects in progress and Internal Audit will be coordinating with them.

The external auditor fieldwork and/or planning for the five attest engagements during December 2005 (radio, TV, endowment, athletics, and Charter School).

4. Board of Regents Internal Audit and Institutional Compliance Policies – UH System
Mr. Guyton stated the Audit Committee Planner, No. 3.03, requires an annual review of the Board of Regents' policies on Internal Audit and Institutional Compliance. Policy on Identity Theft had been added to these policies earlier this year, but there were no additional changes made.

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5. Certificate of Annual Financial Statements – UH System

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. The Board received a copy of these certifications. Prior to the Chancellor and Vice Chancellor for Administration and Finance signing the certifications, the following steps were taken:

- (a) UH-Clear Lake, UH-Downtown, and UH-Victoria 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) UH and UHSA administrators and unit heads representing 125 departments completed the FY'09 Department Fraud Risk Survey, which included questions about verifying cost center transactions, reporting instances of fraud and non-compliance, and other internal controls. According to the survey results, Mr. Guyton said internal controls were adequate to ensure that the financial transactions created for FY'09 by UH-UHSA departments were true and correct; and
- (c) Mike Glisson, David Ellis, Tom Ehardt, Dr. Carlucci, and Dr. Khator signed the Certification Letter for University of Houston, UH System Administration, and UH System Consolidated based on:
 - (1) Department surveys, which indicate internal controls are adequate within UH and UHSA departments to ensure correct financial transactions;
 - (2) Certifications signed by UH-Clear Lake, UH-Downtown, and UH-Victoria representatives; and
 - (3) Their knowledge and review of the FY'09 Annual Financial Report for UH, UHSA, and UH System Consolidated.

There being no further business to come before the committee, the meeting adjourned at 11:42 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.

Others Present:

Renu Khator
Carl Carlucci
Dona Cornell
John Antel
Don Guyton
Marquette Hobbs

Elaine Charlson
Ed Hugetz
Tom Ehardt
Barbara Stanley
Judy Young
Gerry Mathisen

Russ Hoskens
Eli Cipriano
Karen Livingston
Jon Aldrich
Ed Jones