

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

Wednesday, February 15, 2012 – The members of the Audit and Compliance Committee of the University of Houston System convened at 9:33 a.m. on Wednesday, February 15, 2012 at the University of Houston-Clear Lake, Garden Room, Room 1510 Bayou Building, 2700 Bay Area Blvd., Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Nandita V. Berry, Chair  
Roger F. Welder, Member  
Nelda Luce Blair, Ex Officio  
Tamecia Glover Harris, Student Regent

Member(s) Absent

Mica Mosbacher, Vice Chair

Non-Member(s) Present

Spencer D. Armour III, 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 thanked William Staples, President of UH-Clear Lake and his staff for hosting the Board's committee meeting being held.

Regent Berry stated that with the exception of the minutes, there would be seven (7) items presented to the committee, one (1) requiring committee action and approval and six (6) for information only. Regent Berry then introduced Item B, the approval of minutes.

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AGENDA ITEMS

**Action Items:**

1. Approval of Minutes – Item B

On motion of Regent Welder, seconded by Regent Blair, and by a unanimous vote of the members in attendance, the following minutes from the meeting listed below were approved:

- November 16, 2011, Audit and Compliance Committee Meeting

Regent Berry announced that Mr. Don Guyton, Chief Audit Executive, would be presenting the items before the committee.

Mr. Guyton stated that at the November 2011 committee meeting, during discussions of the first Annual Procurement Report for the Board of Regents, Regent Blair made a point to revisit the Board's procurement policies to determine the approval thresholds needed to be adjusted. Mr.

Guyton mentioned that he believed that this was still an open point. Regent Berry acknowledged that was correct and that after this meeting, Regent Blair, Regent Hollingsworth and Regent Berry would meet with Dr. Carlucci to determine the procurement thresholds required.

2. Report on Audit Report and Financial Statements, University of Houston Charter School, FY2011 – University of Houston System, Item C – AUDIT-C1.

Mr. Guyton introduced this item and requested Board approval of the Audit Report and Financial Statements of the University of Houston Charter School for Fiscal Year 2011. During the November 2011 committee meeting, Mr. Matt Malinsky, the university's KPMG engagement partner, made a presentation on the late-stage draft financial statements of the UH Charter School. Mr. Malinsky was unable to attend this meeting, but it should be pointed out that there were only minor changes made to the financial statements since the time of his presentation.

On motion of Regent Welder, seconded by Regent Blair, and by a unanimous vote of the regents in attendance, the Report on Audit Report and Financial Statements, University of Houston Charter School, FY2011 was approved by the committee.

At the conclusion of the committee approval of this item, Regent Berry called for a motion to place this item on the Consent Docket Agenda for the February 15, 2012 Board of Regents meeting for final Board approval.

On motion of Regent Welder, seconded by Regent Blair, and by a unanimous vote of the regents in attendance, the Report on Audit Report and Financial Statements, University of Houston Charter School, FY2011, approved by the committee, will be placed on the Consent Docket Agenda at the February 15, 2012 Board of Regents meeting for final Board approval.

3. Report on External Audit Report – UH Athletics Department Independent Accountants' Report on the Application of Agreed-Upon Procedures for Year Ended August 31, 2011 – University of Houston System, Item D – AUDIT-D53.

Regent Berry stated this agenda item was a report required by NCAA bylaws. It was not an audit report but a report on the application of agreed-upon procedures by the university's auditor, KPMG, and on the Athletics Department's statement of revenues and expenditures.

Mr. Guyton referred the committee to the unaudited Statement of Revenues and Expenses of the Intercollegiate Athletics Department Year Ended August 31, 2011 as reported on page AUDIT-D76. Numerous questions were presented and brief discussions followed.

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

4. Report on External Audit Report – Texas Comptroller of Public Accounts Post Payment Audit of the University of Houston System, Item E – AUDIT-E79.

Mr. Guyton presented this item to the committee and stated the scope of this audit included a sample of payroll, purchase, and travel transactions during the period June 1, 2010 through

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May 31, 2011. The only exception noted in the report was that seven (7) payroll transactions were missing documentation which were subsequently located and provided to the auditor. The State Comptroller's Office performs post-payment audits of each institution approximately every two (2) years.

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

5. Report on Institutional Compliance Status Report for the Three Months Ended December 31, 2011 – University of Houston System, Item F – AUDIT-F91.

Mr. Guyton stated this report referred to the Institutional Compliance Status Report for the three months ended December 31, 2011. This report lists activities which included risk assessments, compliance audits, compliance committee meetings, risk mitigation, and hot-line reports.

In this report, the Chancellor's email to the University of Houston System community dated November 16, 2011 regarding the University's zero tolerance for improper conduct and asking everyone to recommit themselves to making sure that no acts of abuse, fraud or discrimination or retaliation were tolerated in any way within the University of Houston System was addressed. This email also referred to the MySafeCampus program used to report any such activity. Chancellor Khator made remarks and a brief discussion followed.

This report also contained a table which summarized the results of the system-wide mandatory training for all UH System components.

Item 16 of this report, the Audit and Compliance Committee Charter and Checklist, required the committee to review the legal and regulatory matters which may have impacted Internal Auditing or Compliance activities. A section on changes in laws and regulations which discussed changes to the Texas Education Code enacted by Senate Bill 1414 which requires operators for programs for minors held on campuses of institutions of higher education (e.g. athletic campus) to verify that employees who will be in contact with the campers have training in the recognition of victims of sexual abuse and child molestation was also included. Some of the campers who participate in these programs reside in the residence halls during the summer months. These changes were effective September 1, 2011 and all institutions will have to have procedures in place by June 1, 2012. The Office of General Counsel has taken the lead in establishing a committee to help ensure that a system policy on this matter is implemented to help ensure compliance.

Dr. Richard Walker, Vice Chancellor for Student Affairs was asked to give a summary of the youth camps held on the UH System campuses for summer 2011. An analysis was completed by the system campuses and below is an outline of the camp numbers based on criteria of four (4) days or longer, as well as camp numbers based on less than four (4) days for reference.

**Total Camp Numbers Based on Criteria of Four (4) Days or Longer:**

<u>Campus/Unit</u>	<u># of Camps</u>	<u># of Campers</u>	<u># of Employees</u>	<u># of Volunteers</u>
9	132	10,827	1,107	240

**Total Camp Numbers Based on Less than Four (4) Days:**

<u>Campus Unit</u>	<u># of Camps</u>	<u># of Campers</u>	<u># of Employees</u>	<u># of Volunteers</u>
9	167	15,490	1,201	256

A brief discussion followed. The remainder of the Institutional Compliance Status Report summarized the information provided for each institution for their compliance functions.

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

6. Report on Internal Audit Report – Briefing Booklet, including explanation of internal audit peer review process and proposed peer review team – University of Houston System, Item G – AUDIT-G101

Mr. Guyton introduced this item which referred to the Internal Audit Briefing Booklet. Internal Audit prepared six (6) Internal Audit Reports since the November 16, 2011 Audit and Compliance Committee meeting. These reports addressed areas included in the Board-approved audit plans for FY2011 and FY2012 and included Departmental Compliance Reviews of the University of Houston, Academic Affairs and Provost, a review of endowments managed by the University of Houston Provost, a review of Information Security Standards at the University of Houston-Downtown, the annual football attendance audit, and Internal Audit’s quarterly reports on construction award and follow-up activity. 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. One (1) report contained a Management Action Plan and was included in the Briefing Booklet behind Tab 4; and an overview of all of Internal Audit’s recommendations were included in these reports behind Tab 3.

Audit Report No. 2012-09, Internal Audit’s follow-up report, addressed the status of twenty (20) action items in ten (10) individual audit reports. Internal Audit verified that thirteen (13) of the action items have been implemented, six (6) partially implemented, and one (1) not implemented. Updated management responses were obtained on the partially implemented and not implemented action items. Internal Audit had no high risk items in this report.

Audit Report No. 2012-10 was the construction award status report. This is a standing report in the Briefing Booklet, similar to Internal Audit’s follow-up status report. The objective of Internal Audit’s construction award review was to determine whether the major construction contract awards comply with institutional policies and state statutes, particularly Texas Education Code. The report covered the activity from October 1, 2011 through December 31, 2011. Appendix 1 of the report indicated the scope of the Internal Audit review. There was very little activity during this quarter. A brief discussion followed.

Audit Report No. 2012-12 and No. 2012-14 addressed departmental compliance and endowment management in the University of Houston’s Provost Office. There were no major areas of concern.

Audit Report No. 212-13 was Internal Audit’s annual football attendance audit which was required by the NCAA. Listed in the report was a table listing the paid attendance for each home

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game. This year's average of 23,233 was the largest number since the NCAA began requiring this audit.

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 FY2011 and FY2012.

Mr. Guyton also reported that Internal Audit had various special projects in progress, one of which was the State Auditor's Annual Statewide Audit. The State Auditor's Office was completing its fieldwork for the University of Houston Federal Financial Assistance Programs. The State Auditor has drafted findings and recommendations related to the University of Houston for their report which should be issued during the February-March 2012 timeframe.

Also noted behind the activity outline was the Audit Plan Status. The shaded areas were completed and the footnotes indicated the status of the other areas. A brief discussion followed.

Behind Tab 6 of the Briefing Booklet referred to an explanation of the requirements for the external review of the Internal Audit Department together with the biographies of the three (3) peer review team members who have agreed to conduct the review. All three (3) individuals are Chief Audit Executives at their institutions. They are Sabrina Hearn of the University of Alabama System, Toni Messer, University of Texas at Dallas, and Brian Mikell of the University of Florida. The review will be conducted during the week of May 14, 2012. The report should then be issued shortly thereafter and it will be in the Internal Auditing Briefing Booklet or a separate item on the agenda for the August 2012 Audit and Compliance Committee meeting.

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

### 7. Report on Board of Regent's Internal Audit, Institutional Compliance and Identity Theft Program Policies – University of Houston, Item H – AUDIT-H102

Mr. Guyton presented this item and stated the Audit Committee Planner, Item No. 303, requires an annual review of the Board of Regents' policies on Internal Audit and Institutional Compliance. There were no changes to these policies.

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

### 8. Report on UHS Annual Financial Statements/Certifications – University of Houston System, Item I – AUDIT-I108

This item referred to the Certification of Annual Financial Statements for the University of Houston System. The Audit Committee Planner, Item No. 3.13, requires that the University of Houston System Chancellor and the University of Houston System Chief Financial Officer certify the Annual Financial Statements for the University of Houston System as a whole, and that each component President and Chief Financial Officer certify the Annual Financial Statements for their respective component institution. The agenda contained these certifications. Prior to the Chancellor or Vice Chancellor for Administration and Finance signing the

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certifications, the following steps were taken:

1. UH-Clear Lake, UH-Downtown and UH-Victoria Chief Accounting Officers, Chief Financial Officers, and Presidents certify that the financial reports for their campuses were true and correct to the best of their knowledge;
2. UH and UHSA administrators and unit heads representing 125 departments completed the FY2011 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, internal controls were adequate to ensure that the financial transactions created for FY2011 by the UH and UHSA departments were true and correct; and
3. Mike Glisson, David Ellis, Tom Ehardt, Dr. Carlucci, and Chancellor Khator signed the Certification Letter for UH, UHSA, and UH System Consolidated based on the following:
  - (a) Department surveys which indicated internal controls were adequate within UH and UHSA Departments to ensure correct financial transactions;
  - (b) Certifications signed by UHCL, UHD and UHV representatives; and
  - (c) Their knowledge and review of the FY2011 Annual Financial Report for UH, UHSA, and UH System Consolidated.

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

There being no further business to come before the committee the meeting adjourned at 10:10 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  
Carl Carlucci  
John Antel  
Dona Cornell  
Philip Castille  
William Staples  
Rathindra Bose  
Grover Campbell  
Eloise Stuhr  
Richard Walker  
Emily Messa  
Gerry Mathisen

Don Guyton  
Dan Maxwell  
John Rodriguez  
Craig Ness  
T. J. Meager  
Mike Glisson  
Michelle Dotter  
Chris Stanich  
Mike Emery  
Oscar Gutierrez  
Jon Aldrich

Russ Hoskins  
Raymond Bartlett  
Willie Munson  
Andrea Bach  
Malcolm Davis  
Wayne Beran  
Tom Ehardt  
Jeffrey Cass  
David Ellis  
Ed Hugetz  
Marquette Hobbs

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