

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

April 14, 2009

The Chair of the Committee, Dennis D. Golden, O.D., convened the meeting of the Audit & Compliance Committee of the University of Houston System Board of Regents, at 12:34 p.m., in the Elizabeth D. Rockwell Pavilion, M.D. Anderson Library, University of Houston, 4800 Calhoun, Houston, Texas, on Tuesday, April 14, 2009 with the following members present: Dennis D. Golden, O.D., Nelda Luce Blair, Jacob M. Monty, and Welcome W. Wilson, Sr., Ex Officio. Regent Calvin W. Stephens attended as a non-member.

Regent Golden stated there were five information items on the agenda and turned the meeting over to Mr. Don Guyton, Chief Audit Executive.

Mr. Guyton stated there were no open points from the February Audit and Compliance Committee meeting. The first item, Institutional Compliance Status Report for the Two Months Ended February 28, 2009 addressed the risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports for the UH System campuses. This was for information only and required no committee action.

Next on the agenda was the External Audit Reports – Financial Statements – UH System for the following:

- UHS KUHF Radio, Financial Statements and Independent Auditors' Report for FY 2008 and 2007;
- UHS KUHT – TV, Financial Statements and Independent Auditors' Report for FY 2008 and 2007;
- UHS Endowment Fund, Financial Statements and Independent Auditors' Report for FY 2008 and 2007; and
- SAO Report 09-330, Federal Portion of the Statewide Single Auditor Report for the Fiscal Year Ended August 31, 2008 (Excerpts)

Mr. Guyton stated that both UHS KUHF Radio and UHS KUHT-TV had incurred operating losses and that the UH System Endowment Fund financial statements contained a subsequent event footnote which explained the decline in the value of the Endowment Fund since August 31, 2008. Regent Wilson requested an explanation of KUHT's liability to the UH System and Mr. Guyton agreed to provide one at the next Audit and Compliance Committee meeting. He also discussed the State Auditor's report on the University of Houston's, UH-Downtown's and UH-Victoria's financial aid areas. Mr. Guyton stated that management action plans have been prepared which address each of the recommendations in the State Auditor's Report. These items were related to the University of Houston and UH-Downtown and will be tracked in their

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follow-up database. This item was for information only and required no action by the committee. A complete copy of this report was filed in the Board office.

The next item, External Audit Report – Construction – UH System, referred to the Calhoun Lofts Residence Hall Interim Construction Audit. Mr. Guyton confirmed that management action plans have been addressed for each of the recommendations in the report and these items will be tracked in their follow-up database. Regent Golden stated that as part of the Audit & Compliance Committee function going forward, they will monitor all future significant construction projects for all UH System campuses, as well as go back over the last three years in order to determine if more refunds are due. Dr. Carlucci affirmed that this report confirmed it should be a standard practice for all significant projects and those completed over the last three years.

Mr. Guyton mentioned that an RFP had been submitted a year ago to select a pool of auditors; and contracts have been signed with three different auditing firms. Under each of these auditors, service orders were awarded under their contracts to review construction projects over the next three years. This item was for information and required no action by the committee. A complete copy of this report was filed in the Board office.

Mr. Guyton discussed the next item on the agenda, Report on Compliance of Private Support Organizations and Foundations – UH System. He gave a brief overview of this report as of March 2009. Annually, he stated the university receives financial statements, tax returns, IRS 990 forms; gift information, and various other investment material from these support organizations and foundations for reference. Mr. Guyton stated that Mr. Rierson, Vice Chancellor for University Advancement, felt we should start analyzing some of the information we receive from these foundations. By reviewing their tax returns and financial statements, we can identify the number of paid staff members they may have; what is the nature of their investments; what are they paying for asset management and other fees; and do they have adequate internal controls, etc. A group of subject matter experts has been identified and they will develop a template that would incorporate the information on each of the foundations. Once this data has been compiled, a report will be submitted to management for their review and it will be presented at the next Audit and Compliance Committee meeting. This item was for information only and required no action by the committee.

The last item on the agenda, Internal Audit Report – Briefing Booklet – UH System, was presented by Mr. Guyton. He stated that six internal audit reports were prepared since the February Audit and Compliance Committee meeting. These reports addressed areas which were included in the Board-approved Audit Plan for Fiscal Years 2008 and 2009 and included a review of the UH-Downtown College of Sciences and Technology, an audit of University of Houston and UH-Clear Lake's Technology Workforce Development Grants (mandatory reviews), a departmental compliance review of the UH Administration and Finance Division, Information Security Standard reviews at UH-Victoria and UH-Downtown (also mandatory), and Internal Audits follow-up activity. All 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. Mr. Guyton stated that

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some of these reports contain management action plans and they were included in the briefing booklet. An overview of all of their recommendations was included in these reports.

Audit Report No. 2009-15, was a follow-up report and addressed the status of 24 action items in eight individual audit reports. Internal Audit verified 17 of the action items had been implemented and six partially implemented and one not implemented. Updated management responses had been obtained on the partially implemented and no implemented action items. There were two high risk items in the report and they have been implemented.

Audit Report No. 2009-17, a report on the UH-Downtown College of Sciences and Technology, contained two significant findings. One of these findings explained incorrect effort reporting and potentially unallowable costs related to compensation of some research personnel. The other finding explained the lack of administrative and financial oversight within the college.

Mr. Guyton stated that various scheduled audits in the reporting, fieldwork in progress or in the planning phase which were included in the Board approved internal audit plan for fiscal year 2008 and 2009.

There were also various Special Projects in Progress. The State Auditor's Office is currently planning its fieldwork for the FY2009 statewide audit and Internal Audit has been in contact with them on this engagement. Various construction audits have been engaged by Facilities, Planning and Construction for the various construction projects in progress and Internal Audit will be coordinating with them on this project. The Financial Reporting Department will also issue an RFP for audit services for the five attest engagements (KUHF, KUHT, Endowment, Athletics, and Charter School). There are also various special projects in progress.

There being no further business to come before the committee, the meeting was adjourned at 11:55 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:

Carl Carlucci
Dona Cornell
John Antel
Max Castillo

Don Guyton
Eli Cipriano
Elaine Charlson
Elaine Pearson

Russ Hoskins
David Bradley
Molly Woods
Dave Irvin

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Bill Staples
Ed Hugetz
Dineta Frazier
Gerry Mathisen

John Hesse
Craig Ness
Tom Ehardt

Jose Rangel
Sue Green Davis
Marquette Hobbs