

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

Wednesday, August 17, 2011 – The members of the Audit and Compliance Committee of the University of Houston System convened at 8:39 a.m. on Wednesday, May 18, 2011 at the Hilton University of Houston Hotel, Waldorf Astoria Ballroom E, Second Floor, 4800 Calhoun, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Nandita V. Berry, Chair  
Jacob M. Monty, Vice Chair  
Welcome W. Wilson, Sr., Member  
Carroll Robertson Ray, Ex Officio

Non-Member(s) Present

Nelda Luce Blair, Regent  
Jim P. Wise, Regent

In accordance with a notice being timely posted with the Secretary of State and there being a quorum present, Nandita V. Berry, Chair of the Committee, was delayed on her arrival and requested that the Vice Chair of the Committee, Jacob M. Monty, call the meeting to order in her absence. Regent Monty called the meeting to order at 8:45 a.m. and stated three (3) action items would be presented, one (1) of which required both committee and board approval; and the remaining three (3) items would be presented for information only. Regent Monty then introduced the first item on the agenda, the approval of minutes.

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AGENDA ITEMS

**Action Items:**

1. Approval of Minutes – Item B

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

- May 18, 2011, Audit and Compliance Committee Meeting

Regent Monty introduced Mr. Don Guyton, Chief Audit Executive, who presented the remaining items to the committee.

Mr. Guyton, Chief Audit Executive, noted there were no open points from the May 18, 2011 Audit and Compliance Committee meeting.

2. Approval of UHS Internal Auditing Department Long-Range Internal Audit Plan for Fiscal Years 2012-2014 - University of Houston System, Item C – AUDIT C

Mr. Guyton introduced this item and stated the executive summary of the audit plan was behind Tab 1; the resource and budget information behind Tab 2; and the listing of the audit team members behind Tab 3. Mr. Guyton referred the committee members to Tab 3 and introduced the audit team members in the order they were listed in this section:

- Mr. Russell G. Hoskens, Assistant Director, Internal Auditing Department;
- Mr. Bobby Kegresse, Senior Auditor, Internal Auditing Department;
- Mr. Tony Moreno, Senior Auditor, Internal Auditing Department;
- Ms. Brandy Walker, Senior Auditor, Internal Auditing Department;
- Ms. Brandee O’Neal, Senior Auditor, Internal Auditing Department;
- Mr. Ray Hale, Information Technology Auditor, Internal Auditing Department;
- Ms. Lauren Francis, Staff Auditor, Internal Auditing Department;
- Ms. Kauisha Smith, Staff Auditor, Internal Auditing Department;
- Ms. Lisa Berry, Staff Auditor, Internal Auditing Department; and
- Ms. Andrea Bach, Executive Administrative Assistant

The Audit Plan contained a risk assessment for all components. Risk assessment techniques were employed to identify auditable areas and to ensure that the accounting systems and controls, the administrative systems and controls, and other major systems and controls were reviewed on a periodic basis. The risk assessment was included in Section 8 of the audit plan. Audits of these higher risk areas should help mitigate some of the risk, said Mr. Guyton. Internal Audit had prepared a separate risk analysis for each campus. In preparing the audit plan and risk analysis, Internal Audit received input from key personnel throughout the entire system, including the chancellor and the chair of the Audit and Compliance Committee. The Texas Government Code Section 2101 requires the Board of Regents to approve the audit plan and periodically review the resources dedicated to the Internal Audit Program and determine if adequate resources exist to ensure that risks identified in the annual risk assessment are adequately covered within a reasonable timeframe.

The Internal Audit resources and budget were described in the executive summary, page 2 Section 2 pages 2-3, of the audit plan. The budgets of all components of the UH System Administration were reduced for FY2012. The Internal Auditing Department’s budget reduction was approximately \$32,000. Not filling a vacant position during the year in anticipation of the budget reduction added reserves to the Internal Auditing cost center fund equity to help fund this budget reduction. The organizational chart in Section 2, pages 2-4, noted that Internal Auditing planned to keep the staff auditor position vacant for the upcoming year. Given the budget reductions that all units must make, Internal Audit believes the resources dedicated to the Internal Audit Program were adequate. This audit plan, including a summary of the Internal Audit resources was presented for the committee’s review and approval so that it can be submitted for final approval by the Board at the Board of Regents meeting scheduled for later in the day.

On motion of Regent Ray, seconded by Regent Wilson, and by a unanimous vote of the committee members present, the approval of the UHS Internal Auditing Department Long–

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Range Internal Audit Plan for Fiscal Years 2012-2014 - University of Houston System was approved.

On motion from Regent Ray, seconded by Regent Wilson, and by a unanimous vote of the committee members present, the UHS Internal Auditing Department Long-Range Internal Audit Plan for Fiscal Years 2012-2014, will be placed on the Consent Docket Agenda at the Board of Regents meeting on August 17, 2011 for final Board approval.

### 3. Approval of Audit and Compliance Committee Planner – University of Houston System, Item D – AUDIT D

Mr. Guyton referred to the Audit and Compliance Committee Planner, Item 2.04, which requires the committee to approve the Audit and Compliance Committee Planner for the upcoming academic year. There were three (3) minor changes to the planner since it was approved by the Audit Committee one year ago. There was a change in Section 3.06 to indicate that Internal Audit review the status of the actual audit work relative to the approved audit plan each quarter; a change in Section 3.08 to reflect the revised terminology for the Internal Audit standards; and a minor change to Section 5.04 to schedule this item related to adequacy of controls to coincide with the issuance of the State Auditor's Annual Statewide Report stated Mr. Guyton.

On motion of Regent Wilson, seconded by Regent Ray, and by a unanimous vote of the committee members present, the approval of the Audit and Compliance Committee Planner was approved. This item does not require final Board approval but the motion was made from Regent Ray, seconded by Regent Wilson, and by a unanimous vote of the committee members present to place this item on the Consent Docket Agenda at the Board of Regents meeting on August 17, 2011 for final Board approval.

### 4. Approval of Audit and Compliance Committee Charter and Checklist – University of Houston System, Item E – AUDIT E

Mr. Guyton introduced this item which recommended guidelines for the operation of the Audit and Compliance Committee. There were no suggested changes to this document.

On motion of Regent Wilson, seconded by Regent Ray, and by a unanimous vote of the committee members present, the approval of the Audit and Compliance Committee Charter and Checklist was approved. This item does not require final Board approval but the motion was made from Regent Ray, seconded by Regent Wilson, and by a unanimous vote of the committee members present to place this item on the Consent Docket Agenda at the Board of Regents meeting on August 17, 2011 for final Board approval.

### 5. Presentation – State Auditor's Office Overview – University of Houston, Item F – AUDIT F

Mr. Guyton introduced Ms. Verma Elliott, an audit manager of the State Auditor's office (SAO), who has been designated as the contact manager for the University of Houston System and various other higher education systems in Texas. Ms. Elliott presented a brief

overview of the roles and responsibilities of the Texas State Auditor's office and her role, specifically, as it relates to the University of Houston System. Ms. Elliott, in her role as contact manager for the University of Houston System, is responsible for answering questions and discussing concerns of University of Houston personnel. Below is a brief overview of Ms. Elliott's remarks.

- The SAO is the independent auditor for the State of Texas and one of six (6) legislative agencies that support the Texas legislature.
- The SAO operates under the oversight of the Legislative Audit Committee which is a six (6) member permanent committee of the Texas legislature jointly chaired by the Lt. Governor and the Speaker of the House of Representatives.
- The SAO is authorized under Chapter 321 of the Texas Government Code to perform audits, reviews and investigations.
- All audits performed are under generally accepted government auditing standards and standards issued by The American Institute of Certified Public Accountants.
- The SAO's work in auditing helps to accomplish several things:
  - (a) Ensures the quality and accuracy of information and financial information that all decision-makers and the public uses to make decisions about entities;
  - (b) Verifies compliance with laws and regulations; and
  - (c) Tries to identify recommendations and improvements in making entities function in a more control-oriented and efficient and effective manner.
- The SAO has an Audit Plan which must be approved by the Legislative Audit Committee.
- There are various types of audits performed by the SAO:
  - (a) Financial statement opinion audits;
  - (b) Financial-related audits;
  - (c) Compliance audits;
  - (d) Economy and efficiency audits;
  - (e) Effectiveness audits; and
  - (f) Other special audits requested by the legislature.
- There are reviews performed which are less rigorous than audits and normally take a shorter timeframe.
- Investigations are also performed.
- There are other requirements or interactions that the University of Houston may have with the SAO even if someone is not the subject of an audit. They include:
  - (a) Delegation of authority to use outside auditors;
  - (b) Internal Auditing Act requires that each Internal Audit Department send each Internal Audit Report to the SAO as well as the Annual Internal Audit Report;
  - (c) Reporting fraud; and
  - (d) Basic questions and answers.

A brief discussion followed Ms. Elliott's remarks.

Regent Berry thanked Ms. Elliott for taking the time to speak before the committee. This item was for information only and required no committee action.

6. Institutional Compliance Status Report for the Three Months Ended June 30, 2011 and Annual Compliance Plan for FY2012 – University of Houston System, Item G – AUDIT G

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Mr. Guyton stated this item referred to the Institutional Compliance Status Report for the three months ended June 30, 2011 and each institution's Annual Compliance Plan for FY2012. This report listed all of the activities for this time period, which included risk assessments, compliance audits, compliance committee meetings, risk mitigation, and hotline reports.

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

### 7. Report on Internal Audit Report – Briefing Booklet – University of Houston System, Item H – AUDIT H

Mr. Guyton addressed the Internal Audit Report - Briefing Booklet which had been distributed under separate cover to the committee. An activity outline behind Tab 1 of the Briefing Booklet contained eight (8) Internal Audit Reports prepared by Internal Auditing since the February Audit and Compliance Committee meeting. Executive summaries and individual reports addressed these areas included in the Board-approved audit plan for FY2012 and included a departmental compliance review of the UH College of Education, reviews of endowments managed by the UH Library, the UH College of Optometry, and the UH College of Natural Sciences and Mathematics, a review of the UH System privacy framework, a review of construction contract awards, and Internal Audit's quarterly 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. Two (2) of these reports contained management action plans. An overview of all of Internal Audits' recommendations was included in the Briefing Booklet.

Audit Report No. 2011-27, Internal Audit's follow-up report, addressed the status of twenty (20) action items in eleven (11) individual audit reports. Internal Audit verified that fifteen (15) of the action items had been implemented and five (5) partially implemented. Updated management responses had been obtained on the partially implemented and not implemented action items. There were no high risk items in this report.

Audit Report No. 2011-28 was Internal Audit's initial Construction Award Status Report. Internal Audit plans for this to be a standing report in the Briefing Booklet, similar to their 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 the Texas Education Code. A discussion followed.

- It was noted that with the increase in the number and dollar amount of construction projects in the future, the assurance provided by this periodic report should help to ensure that we are complying with the Texas Education Code and our policies; and
- By monitoring these activities in a timely manner, we should be able to identify and remedy any non-compliance quickly.

Audit Report No. 2011-29, 32 and 34 were Internal Audit Reports on endowment stewardship for the UH Library and the UH Colleges of Optometry and Natural Sciences and

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Mathematics. Internal Audit believes that the Library and these colleges are managing the endowment funds effectively and efficiently and were complying with the terms of the endowments. Internal Audit noted opportunities for improvements in agreement finalization, communication of restrictions, expenditure compliance, and awarding scholarships. Management is in the process of addressing these opportunities. It was also noted that some available funds were not being expended because the agreements were too restrictive. Mr. Guyton stated Internal Auditing had been working closely with Ms. Beth Schaefer, UH Advancement's Manager of Stewardship Reporting. A discussion followed.

Audit Report No. 2011-30 on UH System privacy was another first-time report. The objective of this review was to determine whether the UH System's privacy framework was adequate to effectively manage, control, and protect confidential information in accordance with laws, regulations and best practices. In performing this review, Internal Auditing used the American Institute of Certified Public Accountants' and Canadian Institute of Chartered Accountants' joint publication on Privacy Principles and the Institute of Internal Auditors' Global Technology Audit Guide for managing and auditing privacy risks, said Mr. Guyton. For instances where the UH System's privacy policy did not address certain best practices and requirements, the Office of General Counsel proposed revisions to the UH System policy and issued guidelines, as appropriate. Appendix 1 to this report contained the GAP analysis which was addressed by the Office of General Counsel. Appendix 2 to this report contained the suggested revisions to the UH System's privacy policy. Internal Audit believes that the UH System's privacy framework will be significantly enhanced by the implementation of the changes to the policy and compliance with the guidelines issued by the Office of General Counsel.

In Audit Report No. 2011-31, Internal Audit's report on the Departmental Compliance Review of the UH College of Education noted no matters that they considered to be significant engagement observations.

Mr. Guyton noted that there were various scheduled audits in the reporting or fieldwork in progress phase or in the planning phase. These audits were included in the Board-approved Internal Audit Plan for FY2011. Internal Audit also had various special projects in progress. One of the items mentioned was the State Auditor's Annual Statewide Audit for FY2011. The State Auditor's Office conducted its preliminary fieldwork for the UH Federal Financial Assistance programs in July. Some wrap-up work will be performed later after the fiscal year end. At the present time, no other fieldwork was scheduled by the State Auditor's Office on other UH System entities other than the required follow-up work for prior year findings.

Also addressed was the State Comptroller Post-Payment Audits for the University of Houston-Downtown and University of Houston System. These audits tested for compliance with the State's purchasing and payroll laws and regulations and occur at each of the UH System institutions approximately every two (2) years.

The IRS Bond Audit was also mentioned. At the May Audit and Compliance Committee meeting, Mr. Guyton gave the committee an update on this audit for this issuance for \$130

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million of financed construction. The UH System had responded to the IRS's document requests and there was a one (1) day site visit that occurred in July and the UH System provided additional documents as requested.

Mr. Guyton discussed the final audit, the FEMA audit for Tropical Storm Allison. There had been approximately 100 projects initiated as a result of this storm. FEMA audited approximately 50 percent of the project worksheets through 2005 and there was not any additional FEMA audit activity until July 2010 when the Texas Department of Emergency Management audited 15 project worksheets and a FEMA consultant audited one (1) project worksheet. FEMA recently engaged another consultant to audit twelve (12) more project worksheets; and there are twelve (12) more project worksheets to be audited, including the UH Law Library which was the largest project, stated Mr. Guyton. These will be audited shortly by the Texas Department of Emergency Management or a FEMA consultant.

Mr. Guyton also pointed out that behind the activity outline was the audit plan status and the shaded areas were completed and the footnotes indicated the status on the other areas.

There were no additional questions. 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 9:57 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  
Grover Campbell  
Roth Bose  
Elwyn Lee  
Barbara Stanley  
Lauren Francis  
Beth Schaeffer  
Ray Hale  
Ed Jones

Don Guyton  
Verma L. Elliott (SAO)  
Elaine Charlson  
Lisa Holdeman  
Earl Smith  
Bobby Kegresse  
Brandee O'Neal  
Kauisha Smith  
Oscar Gutierrez  
Brian Jensen  
Andrea Bach  
Marquette Hobbs

Russ Hoskins  
Dana Rooks  
Mark Smith  
Tony Moreno  
Janis Parsley  
Craig Ness  
Brandy Walker  
Lisa Berry  
Wayne Beran  
Ed Hugetz  
Jon Aldrich  
Gerry Mathisen