

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

Wednesday, August 14, 2013 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 9:15 a.m. on Wednesday, August 14, 2013 at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4800 Calhoun, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Nandita V. Berry, Chair
Roger F. Welder, Vice Chair
Jarvis V. Hollingsworth, Member
Nelda Luce Blair, Ex Officio

Non-Member(s) Present

Spencer D. Armour, III, Regent
Welcome W. Wilson, Jr., Regent
Benjamin P. Wells, Student 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 and introduced the first agenda item, Item B, the approval of the minutes for consideration.

AGENDA ITEMS

Action Item:

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:

- May 14, 2013, Audit and Compliance Committee Meeting

Following the approval of the minutes, Regent Berry stated five (5) items would be presented to the committee, one (1) requiring committee and board approval; two (2) action items requiring committee approval only; and two (2) for information. Regent Berry introduced Mr. Don Guyton, Chief Audit Executive, who presented the agenda items before the committee.

Mr. Guyton stated there were no open points from the Audit and Compliance Committee meeting held on May 14, 2013.

Action Item(s):

1. Report on Long-Range Internal Audit Plan for FY2014-2016 – University of Houston System, Item C – AUDIT-C4-77

Mr. Guyton presented the first action item, Item C, which referred to a Report on Long-Range Internal Audit Plan for FY2014-2016 – University of Houston System. Mr. Guyton stated that in this report the executive summary of the plan, the resource and budget information, the listing of the audit team members, and the risk assessment for all components were included in this report.

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 revised on a periodic basis. The risk assessment was included in the Audit Plan. Audits of these higher risk areas should help mitigate some of the risks. Internal Audit (IA) had prepared a separate risk analysis for each campus. In preparing the audit plan and risk analysis, IA 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 were adequately covered within a reasonable timeframe. The IA resources and budget were described in the Audit Plan in the Executive Summary and in the budgeted hours, Section 2 of the report.

Mr. Guyton also noted that in the organizational chart of the IA Department, there was one (1) vacant staff auditor position which they were in the process of filling. In their discussions about audit resources with the Chancellor and Chair of the Audit Committee, IA determined that during FY2014 we would assess whether additional resources would be requested for the FY2015 budget. At this time, IA believes the resources dedicated to the IA program were adequate. The Audit Plan, including the summary of the IA resources was presented to the committee for their review and approval in order that it could be approved by the board at that the Board of Regents meeting later in the day.

On motion of Regent Welder, seconded by Regent Blair, and by a unanimous vote of the committee members in attendance, the Report on Long-Range Internal Audit Plan for FY2014-2016 – University of Houston System was approved.

At the conclusion of the approval of this action item, Regent Berry called for a motion to place this action item on the Board's Consent Docket Agenda for final board approval.

On motion of Regent Hollingsworth, seconded by Regent Welder, and by a unanimous vote of the committee members in attendance, the following action item will be placed on the Board's Consent Docket Agenda at the Board of Regents meeting scheduled for August 14, 2013 for final board approval.

1. Report on Long-Range Internal Audit Plan for FY2014-2016 – University of Houston System.

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Regent Berry stated the following two (2) action items presented would require committee approval only.

2. Report on Audit and Compliance Committee Charter and Checklist – University of Houston System, Item D – AUDIT-D78-85; and
3. Report on Audit and Compliance Committee Planner – University of Houston System, Item E – AUDIT-E86-91.

Mr. Guyton stated the first action item referred to the Audit and Compliance Committee Charter and Checklist which were the recommended guidelines for the operation of the Audit and Compliance Committee. An annual review and update of the Audit and Compliance Committee Charter and Checklist is required. There were two (2) suggested changes to this report as noted below:

- (a) No. 31 in the Report – The Committee shall receive an annual report on the activities of the Internal Auditing Department in the format prescribed by the State Auditor’s Office (Texas Government Code 2102.009); and
- (b) No. 32 in the Report – The Committee shall receive an audit report on the safety and security of the institution’s facilities at least once every three (3) years (Texas Education Code 51.217).

Mr. Guyton stated the second action item referred to the Audit and Compliance Committee Planner. The planner lists all actions required of the Audit and Compliance Committee with recommended schedules for these activities. Item 2.04 requires the Audit and Compliance Committee to approve the Audit and Compliance Committee Planner for the upcoming year. There were two (2) suggested changes to the planner since it was approved by the Audit Committee one year ago:

- (a) No. 3.20 was for the Audit and Compliance Committee to receive an annual report on the activities of the Internal Auditing Department in the format prescribed by the State Auditor’s Office (Texas Government Code 2101.009); and
- (b) No. 5.08 was the Audit and Compliance Committee shall receive an audit report on the safety and security of the institution’s facilities at least once every three (3) years (Texas Government Code 51.217).

On motion of Regent Welder, seconded by Regent Hollingsworth and by a unanimous vote of the committee members in attendance the following two (2) action items were approved by the committee. These two (2) items required committee approval only.

1. Report on Audit and Compliance Committee Charter and Checklist – University of Houston System; and
2. Report on Audit and Compliance Committee Planner – University of Houston System.

Mr. Guyton presented to the committee the last two (2) agenda items which were for information only.

1. Report on Internal Audit Report – Briefing Booklet – University of Houston System, Item F – AUDIT-F92-192

Mr. Guyton stated this agenda item referred to the Internal Audit Briefing Booklet which contained an activity outline. From this outline, Internal Audit (IA) had prepared 10 Internal Audit Reports since the May Audit and Compliance Committee meeting. The executive summaries of these reports and the individual reports addressed areas included in the Board-approved Audit Plan for FY2013 and included a report on the University of Houston-Clear Lake (UHCL) Environmental Institute; a report on UH Athletics NCAA Rules-Compliance; Departmental Reviews of the UH College of Engineering and UH Libraries; a report on UH Frequent Travelers; reports on UHCL's Title IV Financial Aid and Research Administration; an Information Technology Audit Activity Report; a review of construction contract awards; and IA's quarterly 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. Five (5) of these reports contained Management Action Plans and were included in the Briefing Booklet. An overview of all of IA's recommendations was included in these reports.

Audit Report No. 2013-27, IA's follow-up report, addressed the status of 24 action items in 15 individual audit reports. IA verified that 15 of these action items have been implemented and nine (9) partially implemented. Updated management responses were obtained on the partially implemented action items. There were four (4) high risk items in this report and all of them have been implemented.

Audit Report No. 2013-28 was IA's Construction Award Status Report. The objective of their construction award review was to determine whether the major construction contract awards comply with institutional policies and state statutes, particularly the Texas Education Code. IA did not note any areas of non-compliance with policies or statutes.

Audit Report No. 2013-29 was IA's report on the UHCL Environmental Institute. There were no significant issues in this report.

Audit Reports No. 2013-30 and No. 2013-35 were IA reports on the Departmental Compliance Reviews of UH College of Engineering and University Libraries. Mr. Guyton introduced Dean Dana Rooks of the UH Libraries and the representatives from the College of Engineering, Dr. Hanadi Rifai, Associate Dean for Research and Steve Bangerter, Director of Business Operations who were present at the meeting. IA did not identify any significant issues in the University Libraries report but they did note a significant engagement observation in their report on the College of Engineering, as there was no mechanism in place to help ensure that all business functions were adequately performed throughout the college. The college has made recent changes in management and these changes include the following positions:

- (a) Director of College Business Operations;
- (b) Mechanical Engineering Department Business Manager;
- (c) Chairs of Civil Engineering and Chemical Engineering Departments;
- (d) IT Director; and
- (e) Associate Dean for Administration and Research.

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Mr. Guyton stated the college is in the process of taking action to help ensure that the business functions were adequately performed. This includes establishing direct reporting lines from the Department Business Managers to the Director of College Business Operations. Regent Berry asked Dean Rook, Dr. Rifai and Mr. Bangerter to please stand and said she appreciated and thanked them for taking the time to attend the meeting. Regent Berry stated that the university takes the findings of the Chief Auditor very seriously and she was glad that they did as well.

Audit Report No. 2013-31 addressed the UH Athletics NCAA Rules-Compliance. Mr. Guyton stated there were some minor issues identified in this review related to documentation of notification of financial aid, student athlete vehicles and a compliance form. The Athletics Department has addressed or is in the process of addressing these matters.

Audit Report No. 2013-32 was IA's report on UH Frequent Travel audit. IA reviewed the university's additional review procedures for this group of travelers; and the university plans to implement an electronic travel management information system which would provide additional electronic workflow, enhance documentation and allow better overall management of travel. Some universities have already implemented this system and the university believes that we can make some significant improvements by implementing this system.

Audit Report No. 2013-33 was IA's report on UHCL Office of Student Financial Aid. Although there were no significant issues, IA did note that the financial aid system access could be improved. This point was being addressed by management.

Audit Report No. 2013-34 was IA's report on UHCL Research Contracts and Grants Administration. IA noted a significant engagement observation in this review, non-compliance with the effort reporting requirements of OMB Circular A-21. When the system implemented paperless time and labor reports, UHCL did not implement an alternative mechanism for obtaining the required effort reports. Management has obtained the missing effort reports for the most recent period and they are in the process of obtaining the remainder of the missing effort reports. They have implemented a manual system for collecting these reports until an electronic version is adopted system-wide. Mr. Guyton stated UH is part of the pilot implementing this software and as soon as they get the new effort reporting system up the other system institutions will piggyback onto that system. President William Staples gave brief comments concerning the actions taken and stated UHCL was looking forward to UH implementing this time and effort reporting system. He also stated that UHCL has added additional personnel when this was brought to their attention and that all 12 of the fall reports that are due in November have been completed and they will have the spring reports in advance of the November deadline. President Staples stated he looked forward to seeing this reporting system implemented system-wide.

Audit Report No. 2013-36 was IA's Information Technology Audit Activity Report for FY2013.

Mr. Guyton referred back to the activity outline and stated 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 FY2013.

Internal Audit had various Special Projects in Progress and one of the items listed was the State Auditor's Annual Statewide Audit. The preliminary fieldwork for the State Auditor's Office FY2013 UH Federal Financial Assistance Audit was performed the two weeks beginning July 29, 2013. The State Auditor's Office performed a limited review of UH-Victoria's Federal Financial Assistance Program during June. The State Auditor's Office was also performing follow-up procedures for the University of Houston and UH-Downtown for the FY2012 audit. At this time, IA did not know the results of these audit procedures.

Also listed in the outline was the US Department of Education's Title IV Program Review. Although IA had not received the Audit Report as yet, during the exit conference with the auditors at the completion of their fieldwork, IA was informed that there would likely be findings in the financial aid area and on Clery reporting. The UH Police Department recently engaged a consultant to provide Clery training (this was for crime data and statistics) to members of the Police Department and key personnel. Ms. Dona Cornell, General Counsel, provided additional comments on the Clery initiatives that were currently taking place.

Ms. Cornell stated one of the things brought to their attention was the training that had been conducted at the UH Police Department. The university is currently looking at those same issues at all of our system Police Departments. Ms. Cornell mentioned that she has a few individuals working on a project this summer with regard to all of the universities' compliance efforts related to Clery; and a report will be submitted to the Presidents and the Chancellor at the next President's meeting with some recommendations. A System Administrative Memorandum (SAM) has been drafted that will address Clery compliance for all of the campuses and some templates have been created that will be useful to the Police Departments in order to make certain we do not run afoul of all of the very descriptive requirements set forth in Clery. Mr. Guyton thanked Ms. Cornell for her report.

Mr. Guyton stated that in the activity outline in the Audit Plan Status, the shaded areas were completed and the footnotes in the report indicated the status on the other areas.

2. Report on Institutional Compliance Status Report for the Three Months Ended June 30, 2013, and Annual Compliance Plan for 2014 – University of Houston System, Item G – AUDIT-G193-204

Mr. Guyton stated this item referred to the Institutional Compliance Status Report for the Three Months Ended June 30, 2013, and the Annual Compliance Plan for 2014. The report lists activities for the three (3) months ending June 30, 2013, which include risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports. Internal Auditing had received 24 hot-line reports during this three (3) month period. This fiscal year has experience the most hot-lines since the system was implemented; and for the 11 months ended July 31, 2013, IA had received 79 reports. Many of these reports were Human Resource-related issues. At the completion of this fiscal year, IA will prepare an

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annual report on all reports received during the year which will categorize the types of reports received. This report will be on the agenda for the next Audit and Compliance Committee meeting.

Mr. Guyton also stated that in this report, there was a section on changes in laws and regulations. The Campus Sexual Violence Elimination Act or Campus SaVE Act, signed into law on March 7, 2013, imposes new obligations on colleges and universities. Mr. Guyton requested Ms. Cornell, General Counsel give the committee an update on these statutes.

Ms. Cornell stated that as a result of those changes in the law, what the university has done was get together a work group from all four (4) campuses again to look through the different requirements we have for compliance for all types of sexual misconduct. Legal has drafted, and the Chancellor has signed, a new policy that is in compliance with the Campus SaVE Act. We also have requirements to do additional training for not just our students but also our staff, with regard to these requirements; and those are all currently underway.

These two items were for information only and required no committee action.

No Executive Session was called.

There being no further business to come before the committee, the meeting adjourned at 9:38 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
Paula Myrick Short
Dona Cornell
Philip Castille
William Flores
William Staples
Rathindra Bose
Elwyn Lee
Eloise Stuhr
Richard Walker
Victor Duran
Don Price

Don Guyton
Carl Stockton
Dick Phillips
Mike Emery
Oscar Gutierrez
Wayne Beran
Troy Golden
Chris Stanich
Darrin Hall
Mark Clarke
Laura Ruiz
Jon Aldrich
Nam My Lei

Russ Hoskens
Ed Hugetz
Sandra Dahlke
Phil Booth
Dan Maxwell
Michelle Dotter
Hanadi Rifai
Stephen Bangerter
Valerie Coleman-Ferguson
Dan Wells
Jeffrey Cass
Craig Ness
David Bradley

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Others Present (cont'd)

Frank Castro
Matthew Brawley
Joe Brueggeman
Marquette Hobbs

Cedric Bandoh
Brandon Alexander
Gordon Luce
Brenda Robles

Ed Jones
Landon Julien
Mike Scott
Gerry Mathisen