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

<u>Wednesday, May 12, 2010</u> – The members of the Audit and Compliance Committee of The University of Houston System convened at 11:27 a.m. on Wednesday, May 12, 2010, at the University of Houston, in the Athletics/Alumni Center, Melcher Board Room 100B, 3100 Cullen Boulevard, Houston, Texas, with the following members participating:

ATTENDANCE –

<u>Present</u>	<u>Absent</u>
Jacob M. Monty, Chair	Mica Mosbacher, Regent
Nandita V. Berry, Vice Chair	
Welcome W. Wilson, Sr., Ex Officio	

In accordance with a notice being timely posted with the Secretary of State and there being a quorum present, Chair of the Committee, Jacob M. Monty, called the meeting to order.

*****

<u>AGENDA ITEMS</u>

1. <u>Approval of Minutes – Item B</u>

   On motion of Regent Berry, seconded by Regent Wilson and by a unanimous vote, the following minutes from the meeting(s) listed below were approved:

   ▪ February 10, 2010, Audit and Compliance Committee Meeting

Regent Monty turned the meeting over to Mr. Don Guyton, Chief Audit Executive, who presented the remaining items on the agenda.

Mr. Guyton stated there were no open points from the February, Audit and Compliance Committee meeting to be addressed.

2. <u>Review and Approval of Audit Report and Financial Statements, University of Houston Charter School, FY2009 – UH System – Item C – AUDIT – 1</u>
   In addition to the requirement to submit the audited financial statements to the Texas Education Agency (TEA), all charter schools must also submit evidence of the Board's approval or disapproval of the financial statements. This is a requirement of the Texas Education Code, Title 2, Chapter 44, Section 44.008(d). Once approved by the committee and the board, the University of Houston will submit the approved financial statements to the TEA.

On motion of Regent Berry, seconded by Regent Wilson and by a unanimous vote, the Audit Report and Financial Statements, University of Houston Charter School, FY2009, was approved and will be placed on the May 18, 2010 Board of Regents agenda for final Board approval.

3. <u>Institutional Compliance Status Report for the Three Months Ended March 31, 2010 – UH System – Item D – AUDIT – 2</u>
The activities reported in this report included risk assessments, compliance audits, compliance committee meetings, risk mitigation, and hot-line reports.

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

4. <u>External Audit Reports – UH System – Item E – AUDIT – 3</u>
Two of the reports on the financial statements, which are required by the Corporation for Public Broadcasting and are listed below, were tabled to the August Audit and Compliance Committee meeting. They are as follows:
   (a) UHS KUHF Radio, Financial Statements and Independent Auditor's Report for FY 2009 and FY2008; and
   (b) UHS KUHT-TV, Financial Statements and Independent Auditor's Report for FY 2009 and FY 2008.

The independent CPA report on the application of agreed-upon procedures of the Athletics Department FY 2009 was addressed. The statement of athletic revenues and expenses with related notes, and summary of the auditor's findings were given by Mr. Guyton. Regent Monty asked Mr. Guyton to speak to the total amount of direct institutional support as well as other income for the Athletics department. Mr. Guyton stated that approximately $15.3 million was given in institutional support to the Athletics program; and $1.3 million of other revenues, two-thirds of which represent the rental to the Dynamo Soccer Team at Robertson's Stadium; and the other one-third being rental of Hofheinz Pavilion for graduations, and the like. A complete copy of this report may be found on the Board website at: http://www.uhsa.uh.edu/regents/board_meetings/documents/051210Audit/AUDIT%203.1.pdf .

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

5. <u>External Audit Report – UH System – Item F – AUDIT – 4</u>
The UHS Endowment Fund, Financial Statements and Independent Auditor's Report for FY 2009 and FY 2008 – UH System was tabled to the August Audit and Compliance Committee meeting.

6. <u>UH Peer Review Team Facilities Audit Report – UH System – Item G – AUDIT – 5</u>
Mr. Guyton stated that during March 2010, a facilities inventory audit had been conducted by a Peer Review Team consisting of representatives from the Texas Higher Education Coordinating Board (THECB), University of Texas/El Paso, and Lamar University. This audit was recommended in the February 2009 UH Peer Review Team Facilities Audit Report. As pointed out in the March 2010 report, there were no significant deviations

between reported and observed spatial data, and that within the past year the university was actively engaged in establishing mechanisms of control and oversight.

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

7. State Auditor's Reports – UH System – Item H – AUDIT – 6
    - SAO Report 10-238, Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2009 (excerpts); and
    - SAO Report 10-555, State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009.

    Mr. Guyton stated that this item referred to the UH System excerpts of the State Auditor's recently issued reports on the Federal and Financial Portions of the State-wide Single Audit Report for FY 2009. A listing of key points in the reports as they relate to the UH System was addressed. Management Action Plans have been prepared to address each of the recommendations in the State Auditor's Report. These items were related to the University of Houston and UH-Clear Lake and will be tracked in Internal Audit's database.

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

8. Internal Audit Report – Briefing Booklet – UH System – Item I – AUDIT – 7
    Mr. Guyton stated the first tab in the Briefing Booklet contained the activity outline. Seven Internal Audit Reports since the February Audit and Compliance Committee meeting were prepared. The executive summaries of these reports were addressed and included in the Board-approved Audit Plan for FY 2010 and include a review of the UH College of Law, the UH College of Architecture, the UH-Clear Lake School of Human Sciences and Humanities, the Advanced Research Program grants administered by the Texas Higher Education Coordinating Board (THECB), various cash handling reviews, a review of medical billings at the University of Houston, and Audit's follow-up activity. These reports were 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 they were included in the Briefing Booklet. An overview of all of Audit's recommendations was also included in the report.

    Audit Report No. 2010-16, Audit's follow-up report, addressed the status of 85 action items in 18 individual audit reports. Audit verified that 48 of the action items had been implemented, 33 partially implemented, and four were not implemented. Updated management responses were obtained on the partially implemented and not implemented action items. There were four high risk items in this report and they should all be implemented by January 2011.

    Audit Report No. 2010-20 was Audit's report on the cash handling at eight areas. Mr. Guyton has discussed the petty cash funds with Dr. Carlucci and they both believe that some of these pockets of cash are not as necessary as they used to be as a result of the distribution

of procurement cards. The Treasurer intends to minimize these funds by making the annual justification process more rigid.

Audit Report No. 2010-22 was Audit's report on UH medical billings. This project was included in the Audit Plan at the request of the previous chair of the Audit and Compliance Committee, Dennis D. Golden. The objective of this review was to determine whether the university was billing insurance companies for services provided. It was determined that currently only the Optometry Clinic is billing insurance companies, as the administrative cost for doing so exceeds the benefit for most other areas that could bill insurance companies.

Mr. Guyton stated that there were 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 2010.

Various special projects in progress were mentioned. The State Auditor's Office is currently conducting its fieldwork for a state-wide audit on Veterans Affairs. The University of Houston has been selected as one of the institutions for a site visit.

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

9. Report on Compliance of Private Support Organizations and Foundations – UH System – Item J – AUDIT – 8
    Mr. Guyton stated Board Policy 32.6 requires that an annual report on compliance of private support organizations and foundations be completed each year to be certain they are in compliance with the Board of Regents and Institutional policies. Part of their annual requirement is to supply information to the university which includes financial statements, tax returns, donor information, and investment policies. Mr. Guyton introduced Eli Cipriano, Associate Vice Chancellor for University Advancement, who is the primary liaison between the university and the various organizations. Mr. Cipriano stated that general guidelines have now been established with all of these organizations. Mr. Guyton stated that part of the problem we have had in the past was with the reported information, the tax returns, and the financial information of the foundations, was their support for the university did not always coincide with what the university had recorded in its books and records. Mr. Cipriano and Karin Livingston, Director of General Accounting, met with each of the foundations and their staff and established general guidelines to make certain the university receives the information in the format desired so we can accurately record the information and support in our financial records.

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

10. Follow-up on Previous Audit Reports, UHS Human Resources and Police Operations Functions by Joan Nelson, Executive Director of UH Human Resources, and Malcolm Davis, Assistant Vice President, Public Safety and Security – UH Chief of Police – UH System – Item K – AUDIT – 9
    Mr. Guyton mentioned that previous audit reports on UHS Human Resources and Police Operations Functions identified some areas for potential cost savings and more efficient use

of resources. Regent Monty requested Dr. Carlucci do follow-up reports on these two items. Subsequently, Dr. Carlucci asked the UH System Human Resource Directors to come together to specifically look at the issues raised in their audit and give a status report to the committee on their findings.   On behalf of the UH System, Ms. Joan Nelson, Executive Director of UH Human Resources, presented the first report.

Ms. Nelson introduced her three counterparts at the System campuses: Ms. Ivonne Montalbano, Vice President of Employment Services and Operations at UH-Downtown; Ms. Katherine Justice, Executive Director of Human Resources and Affirmative Action at UH-Clear Lake, who were both in attendance at the meeting; and Ms. Laura Smith, Director, Human Resources and Affirmative Action at UH-Victoria, all of whom collaborated on compiling the responses regarding the recommendations for consolidating and streamlining central functions of Human Resources as a cost savings measure for the UH System.

The UHS Human Resources audit was conducted by Internal Audit in 2003; and below were some of their findings:
- Inefficient Processes (hiring and termination processes of faculty, staff and students) ;
- Reactive vs. Proactive (needed to look at ways to proactively address the needs of our constituents);
- Lack of Standardization (we had not aligned our processes and procedures effectively; and
- Minimal use of the PeopleSoft HR System (we did not effectively utilize our PeopleSoft information systems to meet the needs of Human Resources).

The UHS Human Resources Offices have completely changed from seven years ago. Some of Human Resources' current practices were addressed by Ms. Nelson:
- UH System Human Resource Collaboration (The four UHS Human Resource areas meet on a monthly basis to collaborate on initiatives within the needs of HR; Review best practices from other universities, and implement those changes within their organization);
- Streamlined/Standardized Processes (We have migrated to a full automated system such as our employee self-service programs, personnel action requests (PARs), time and labor, and leave and position requests. Prior to this implementation, it would take 3-4 months to complete paperwork for our busiest seasons, where now it takes 2-3 days to move the information from one process to the other.)
- Developed Effective Tracking Mechanisms (Improvement has been made on how we move and how we operate our functions within our System. We would like to centralize our Affirmative Action Offices to ensure that we are in compliance with both our internal and external auditors that visit us.);
- Business Partners (Streamlining and standardizing our processes has helped us to become more of a business partner to our business units.);
- Effective Customer Service (Customer Service provided to our business units has improved; we are more responsive to our client's needs and we operate more as consultants to our constituents); and

- Provide Institutional Oversight of Federal and State Legislation and UH System Policies (We ensure that there is oversight of these policies.)

UHS Human Resources staff has been transformed from where they were seven years ago to where they are today said Ms. Nelson. We have become more of a consolidated, standardized, processing unit within our areas. We focus more on our customer service initiatives – how we service the individuals who need Human Resources from the benefits, compensation, as well as the training needs of our constituents. Over the past seven years, we have moved our role of Human Resources from business units/business processers to becoming more of change agents for each of our campuses as our Presidents look to shift the culture of our institutions to meet the needs of student success initiatives within each of our areas.

The Human Resources areas are often asked, "How do they support student initiative goals within each of our campuses?" Human Resources plays a critical role in the recruitment and the retention of our qualified employees who have a direct impact to the students we are trying to retain on each of the campuses. We need to have the best, qualified employees to handle admissions, financial aid, as well as our academic advisors to handle these key areas and address our overall customer, the student. Training programs are developed to foster the professional growth of all employees; and as it relates to employee management, we partner and consult with our managers on employee relations issues to help mitigate any financial risk to litigation to each of our universities.

Ms. Nelson showed two slides on the comparisons of our peer universities as it relates to HR staff within these areas compared to the total number of employees that they must support. In many cases, we are operating as efficiently as others we compare ourselves too. The industry standard is 1 HR employee to 100 employees (1:100 – Source, SHRM). At the University of Houston the ratio is 1:232.

Before the close of the presentation, Ms. Nelson stressed it was extremely important to note that the chief Human Resources Offices have worked diligently to streamline and standardize processes, procedures, and policies that guide the day-to-day operations of each of the System campuses. They do not believe there would be a cost savings measure by consolidating their areas because they would not lose staff by doing that, but what they would lose is the face-to-face interaction of their customers, their employees. They would lose the relationship building that has been established throughout their institutions; and they would lose the trust and credibility that they have worked very hard to establish on each of the campuses.

Mr. Guyton introduced UH Chief of Police, Malcolm Davis, who gave a presentation on the Police Operations. There are currently three UHS institutions that have a police force: University of Houston, UH-Downtown, and UH-Clear Lake. The University of Houston also supplies security services to UH-Victoria.

Chief Davis named the two other heads of the UHS institution police departments: Rick Boyle, Chief of UH-Downtown; and Paul Willingham, Chief of UH-Clear Lake. As a charge

from Dr. Carlucci, all three of the police chiefs met to review the Internal Audit Report of 2003, Report No. AR2003-13, to determine if there were any police services offered independently by the three component police departments that have standardized or consolidated that could result in a cost savings to the university while not in any way negatively affect the police services they currently provide.

Specifically, Chief Davis addressed the following three questions:

1. Is there a centralized Police Department among any of the university systems?
   - In Texas, the UT Chancellor is considering combining the UT San Antonio and UTHSC San Antonio police departments into a single agency.
   - This is already being done here in Houston where the UT Houston Police Department provides all police and security services for both the UT M.D. Anderson Cancer Center and the UT Houston Health Science Center.

2. Are there any potential savings by consolidating police operations?
   - All areas examined were behind the scenes, police support functions.
   - Support functions can be standardized and/or consolidated but the daily delivery of routine and emergency police services cannot.
   - How police services are delivered on each of the campuses are in a part a function of the campus location, its relationship with the greater community of which it is a part, and the individual campus cultures.
   - While all three police departments strive to provide the highest quality of police services to the campus community they serve, the way specific situations are handled may vary from campus to campus and is ultimately an administrative function on the campus level.

   This audit also focused on three things:
   - Standardized policies / procedures;
   - Defined campus patrol boundaries; and
   - Development of a comprehensive operating manual.

   Chief Davis' main focus was on standardized operations. Currently, each component Police Department has its own policy/procedure manual, all of which cover virtually the same issues. Some of these issues should be standardized for all component Police Departments while others are actually operational policies which are written to address how police activities are carried out at the campus level.

   Dispatch and Records was addressed. There are cost savings possible from consolidating dispatch operations. UH-Clear Lake and UH-Downtown are concerned that the consolidation of these police support functions would result in the loss of community interaction. Technology to support consolidated Dispatch and Records functions would require a substantial upfront investment.

   Currently, each component Police Department has either a full-time Investigative function (UH) or officers assigned (UH-Clear Lake and UH-Downtown) to handle

complex or high visibility crimes, internal/external investigations, and dignitary protection. At UH-Clear Lake and UH-Downtown, these investigators also perform numerous ancillary functions that would need to be reassigned in the event these personnel were moved to a centralized unit. The consolidation of these Investigative units to a single unit would require UH-Clear Lake and UH-Downtown to move away from their current model of using officers in a dual purpose manner.

Personnel Division – Recruiting and Promotions. Currently, each component Police Department has its own hiring/promotion standards and conducts individual hiring/ promotional processes. A plan is being considered to standardize job descriptions and hiring and promotional processes across the UH System. Standardizing the recruitment, hiring, and promotional processes could increase the base salaries at two institutions.

3. Is there a better model for Police Departments in a Higher Education System?
   Chief Davis quoted the following from the New Jersey Association of Chiefs of Police, 2007:
   - What "core services" are needed by the community in order for it to function property and effectively?
   - What level of service, both for core and ancillary functions, is needed by the community?
   - What specialized services are actually needed by the community?
   - What functions, even if not entirely critical and necessary to the functioning of the community, should be provided in order to project a certain desired image to the residents and visitors? And
   - What are the costs involved with each option, and what is the community willing to pay for its police services?

   Both presentations given were for information only; required no committee action; and have been filed in the Board office.

There being no further business to come before the committee the meeting adjourned at 12:22 p.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	Don Guyton	Russ Hoskens
Carl Carlucci	Joan Nelson	Malcolm Davis
John Antel	Ed Hugetz	Elaine Charlson
Dona Cornell	Tom Ehardt	Eli Cipriano

University of Houston System

Grover Campbell	Ivonne Montalbano	Katherine Justice
Elwyn Lee	T. J. Weinardi	Craig Ness
William Flores	Linda Klemm	Michelle Dotter
Bill Staples	Wayne Beran	Judy Young
Barbara Stanley	Jon Aldrich	Kevin Draper
David Bradley	T. J. Meager	Margie Hattenbach
Ed Jones	Marquette Hobbs	Gerry Mathisen