University of Houston System

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

Tuesday, August 19, 2014 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 12:32 p.m. on Tuesday, August 19, 2014 at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4800 Calhoun, Houston, Texas, with the following members participating:

ATTENDANCE –

Present	Non-Member(s) Present
Roger F. Welder, Chair	Durga D. Agrawal, Regent
Peter K. Taaffe, Vice Chair	Spencer D. Armour, III, Regent
Paula M. Mendoza, Member	Welcome W. Wilson, Jr., Regent
Beth Madison, Member	
Jarvis V. Hollingsworth, 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, Roger F. Welder called the meeting to order.

*****

AGENDA ITEMS

Action Item(s):

1. Approval of Minutes – Item B

    On motion of Regent Taaffe, seconded by Regent Mendoza, and by a unanimous vote of the members in attendance, the following minutes from the meetings listed below were approved:

    ▪ February 26, 2014, Audit and Compliance Committee Meeting
    ▪ May 7, 2014, Audit and Compliance Committee Meeting

Following the approval of the minutes, Regent Welder stated there were seven (7) items being presented before the committee, three (3) of which were action items with the remaining four (4) items for information only. Mr. Don Guyton, Chief Audit Executive, was introduced and presented the various reports before the committee.

Mr. Guyton stated there was one (1) open point outstanding from the May 7, 2014 Audit and Compliance Committee meeting. Regent Hollingsworth had requested an update on the report on support organizations. This updated report was included as an agenda item and was addressed later on in the meeting.

Mr. Guyton introduced Item C, the <u>Report on Long-Range Internal Audit Plan for FY2015-2017 – University of Houston System</u>. Mr. Guyton stated this report contained information for the committee's review and approval of the final draft of the Long-Range Internal Audit Plan for Fiscal Years 2015-2017. An executive summary of the plan and the resource and budget information were outlined in this report, as well as the listing of the Audit team members.

The Audit Plan also 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 the Audit Plan and audits of these higher risk areas should help mitigate some of the risk.

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 2102 requires the UH System 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 stated Mr. Guyton.

The IA resources and budget were described in the Audit Plan in the Executive Summary and the budgeted hours were calculated and referenced. Noted in the Organization Chart of the Internal Auditing Department, IA had no vacant staff auditor positions at this time. In a discussion IA had with the Chancellor and the Audit and Compliance Committee Chair, Regent Welder concerning audit resources, IA discussed obtaining a co-source arrangement for additional IT audit resources. IA plans to fund this engagement with their unexpended fund balances or request additional resources if necessary. At this time, they believe the resources dedicated to the IA program were adequate. This Audit Plan, including the Summary of the IA Resources were presented for the committee's review and approval so that it could be approved by the full Board of Regents at their meeting scheduled on Wednesday, August 20, 2014.

Following Mr. Guyton's presentation of Item C, Regent Spencer Armour inquired as to how had it been decided that some items were only audited every ten years. Mr. Guyton stated that IA had a segment called Departmental Reviews for all departments within the system and that these were currently on a five (5) year cycle. He stated we were in a decentralized control environment which meant that there were a number of checkbooks sitting out there and it was important that these were being reconciled on a periodic basis. This is extremely important for IA in order to make certain that all administrative tasks were being completed in their units. IA prioritizes those items to make certain that those tasks were being performed. Mr. Guyton also stated that in the risk assessment, IA does try to assess the dollar values and the dollar amounts of items under the control of certain areas. There are also functional audits and IA also is currently completing one of these reviews on the billing and receivables system. Therefore, IA basically tries to keep things on a cycle; however, it was noted that in the risk assessment IA assigns the highest item a ten for the length of time since it had been audited. IA assigns a weight factor and cuts it off at ten. Over the ten-year period there are many institutional checks and balances performed stated Mr. Guyton.

Regent Peter Taaffe inquired about whether or not the IT Risk Assessment Audit had been completed? Mr. Guyton stated an IT risk assessment had been completed in this process; but they wanted to engage outside expertise to assist with this process. Mr. Guyton said that he had recently conducted a peer review at the University of Pittsburgh and this was the process they had done. Their governing board was pleased with this procedure. Mr. Guyton stated that a "Request for Proposal" (RFP) would need to be done in order to engage an outside auditor and that the timetable would be after September 1, 2014. Once underway, it would then take several months for the report to be finalized. A brief discussion followed.

On motion of Regent Taaffe, seconded by Regent Mendoza, and by a unanimous vote of the committee members in attendance, the Report on Long-Range Internal Audit Plan for FY2015-2017 – University of Houston System was approved.

Mr. Guyton introduced Item D, the Report on Audit and Compliance Committee Charter and Checklist – University of Houston System. Mr. Guyton presented this action item which referred to the Audit and Compliance Committee Charter and Checklist. It was recommended that the guidelines for the operation of the Audit and Compliance Committee, Item No. 26 on the Audit and Compliance Committee Charter and Checklist, required an annual review and update. There were no suggested changes to this document which was last approved by the Audit and Compliance Committee at its August 2013 meeting.

On motion of Regent Hollingsworth, seconded by Regent Mendoza, and by a unanimous vote of the committee members in attendance, the Report on Audit and Compliance Committee Charter and Checklist – University of Houston System was approved.

Mr. Guyton presented Item E, the Report on Audit and Compliance Committee Planner – University of Houston. Mr. Guyton stated this report 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 required the Audit and Compliance Committee to approve the Audit and Compliance Committee Planner for the upcoming year. There were no suggested changes to the planner since it was approved by the Audit Committee one year ago.

On motion of Regent Mendoza, seconded by Regent Madison, and by a unanimous vote of the committee members in attendance, the Report on the Audit and Compliance Planner – University of Houston System was approved. This item requires committee approval only.

Following this presentation, Regent Welder called for a motion to place the two (2) action items presented to the committee which require full Board approval on the Board's Consent Docket Agenda at the Board meeting scheduled for Wednesday, August 20, 2014.

On motion of Regent Mendoza, seconded by Regent Madison, and by a unanimous vote of the committee members in attendance, the following Audit and Compliance Committee meeting two (2) action items will be placed on the Board's Consent Docket Agenda for final Board approval at the Board meeting scheduled for Wednesday, August 20, 2014 as follows:

1. Report on Long-Range Internal Audit Plan for FY2015-2017 – University of Houston System.
2. Report on Audit and Compliance Committee Charter and Checklist – University of Houston System.

Information Item(s):

Mr. Guyton presented Item F, the Report on Internal Audit Report – Briefing Booklet – University of Houston System. Mr. Guyton stated this information item referred to the Internal Audit Briefing Booklet. The Briefing Booklet contained an activity outline. This report outlined 11 Internal Audit Reports they had prepared since the May 7, 2014 Audit and Compliance Committee meeting. The Executive Summaries and the Individual Reports were listed in the Briefing Booklet. These reports addressed areas which had been included in the Board-approved Audit Plan for FY2014 and included a report on the University of Houston (UH) Cancer Prevention and Research Institute Grant Awards; a report on UH-Downtown (UHD) Endowments; a report on UH Procurement Cards; Departmental Reviews of the UHD College of Sciences and Technology, the UH College of Pharmacy, UH Law Center, and UHD College of Business; a report on UH Information Security Standards; 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; and an overview of all of the Internal Audits recommendations were included in these reports as well.

Audit Report No. 2014-18, Internal Audit's (IA) follow-up report, addressed the status of 24 action items in seven (7) Individual Audit Reports. IA verified that 17 of the action items had been implemented and seven (7) had been partially implemented. Updated management responses have been obtained on the partially implemented action items. IA had no high risk items in this report.

Audit Report No. 2014-19 was the Construction Award Status Report. The objective of IA's Construction Award Review was to determine whether the major Construction Contract Awards complied with institutional policies and state statutes, particularly the Texas Education Code. IA only had one (1) project with any activity during this quarter and they did not note any areas of non-compliance with policies or statutes.

Audit Report No. 2014-20 was IA's report on the review of grants to UH from the Cancer Prevention and Research Institute of Texas for fiscal years 2010 – 2012. The Institute required this Internal Audit Report for these three (3) years and IA was requiring External Audit Reports going forward.

Audit Reports Nos.AR2014-21; AR2014-22; AR2014-23; and AR2014-24 were IA reports on the Departmental Reviews of the UHD Colleges of Sciences and Technology and College of Business and the UH College of Pharmacy and UH Law Center. Mr. Guyton introduced

management from these respective areas as follows: Associate Dean DeLaVina of the UHD College of Sciences and Technology; Dean Fields of the UHD College of Business; Dean Pritchard of the UH College of Pharmacy; and Dean Baynes of the UH Law Center, and thanked them for being in attendance at the meeting and available to answer any questions. Mr. Guyton stated IA had not identified any significant issues in the UH College of Pharmacy or UHD's College of Business, but they did have a significant engagement observation with the other two (2) colleges, the UHD College of Sciences and Technology and the UH Law Center. Both colleges needed to improve their financial and administrative oversight; and both colleges were implementing Action Plans to address these issues.

Audit Report No. 2014-25 was a report on IA's review of UHD endowments. IA noted opportunities for improvement in the stewardship of these funds which management was in the process of implementing.

Audit Report No. 2014-26 was IA's report on UH Procurement Cards. IA addressed the overall administration of this area and found no issues. Their detailed tests of procurement card purchases were performed during IA's Departmental Reviews.

Audit Report No. 2014-27 was IA's Information Technology Audit Activity Report, FY2014; and Audit Report No. 2014-28 was their Information Security Standards Review at UH. IA had found that the institutions fully complied with most of the state-required standards. These reviews were required every two (2) years by statute.

Mr. Guyton referred back to the activity outline and on the outline it was noted that IA has 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 2014. Internal Audit also has various special projects in progress. FEMA is still conducting audits of UH's reimbursements for Hurricane Ike; and the State Comptroller was wrapping up its post-payments audit at UH and they are just starting a similar audit at UH-Clear Lake. These audits are performed at all of our institutions about every 2 to 3 years. The State Auditor's Office has started its Annual Statewide Audit and UH and UHD's Federal Financial Aid Programs will be included in the scope of this review. Also included in the scope of this review will be UH's Research and Development and the Teachers Retirement System expenditures made by UH and UHD.

Mr. Guyton stated that in the activity outline, the Audit Plan Status was addressed. The shaded areas of this report represented the completed items and the footnotes indicated the status on the other areas. A lengthy discussion followed.

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

The next item presented by Mr. Guyton was Item G, the Report on Institutional Compliance Status Report for the Three Months Ended June 30, 2014 – University of Houston System. This report referred to the Institutional Compliance Status Report for the three-months ending June 30, 2014 and each institution's Annual Compliance Plan for FY2015. This report listed activities which included risk assessments, compliance audits, compliance committee meetings,

risk mitigation and hotline reports. There were 19 hotline reports received during this three-month period. Many of these reports were HR-related issues. Of the 21 unresolved reports as of June 30, 2014, only one (1) was unresolved at this time. At the completion of this fiscal year, IA will prepare an Annual Report on all reports received during the year which will categorize the types of reports that were received. This report will be on the agenda at the next Audit and Compliance Committee meeting scheduled in November.

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

Item H, the Report on External Audit Report – A Compliance Audit of Formula Funding at the University of Houston conducted by the Texas Higher Education Coordinating Board (THECB) – University of Houston System was the next item presented by Mr. Guyton. This report referred to a compliance audit of formula funding at UH conducted by the THECB. This is the first time this audit had been conducted by the Coordinating Board as the State Auditor's Office previously was required to perform these audits. The auditors found no errors in the data reported.

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

Mr. Guyton presented the last information item, Item I, the Report on UH System Support Organizations – Follow-up – University of Houston System. Mr. Guyton stated this item was an updated version of the Report on UH System Support Organizations that had been presented at the May 7, 2014 Audit and Compliance Committee meeting. The Compliance Review was in the report and the items that had been noted still have not been received. There were some changes indicated since the last report, but there were no changes in the narrative. On the Summary of Operations for FY2013, the new gifts and pledges line had been updated. There were no changes on the Summary of Operations for FY2012.

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

Regent Welder thanked Mr. Guyton for his presentations at the meeting and his staff for all of their hard work.in preparing this reports. The committee was very appreciative..

No Executive Session was called.

There being no further business to come before the committee, the meeting adjourned at 1:23 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:

Carl Carlucci	Don Guyton	Russ Hoskens
Paula Myrick Short	Sandra Dahlke	Kevin Dorsey
Valerie Coleman-Ferguson	Elaine Pearson	Leonard Baynes
William Flores	David Bradley	Troy Golden
Vic Morgan	Craig Ness	Rubina Haroon
Rathindra Bose	Joanna Wolff	Heather Davis
Elwyn Lee	Dan Maxwell	Lamar Pritchard
Eloise Dunn Stuhr	Nicki Fields	My Bas Nguyen
Dana Rooks	Jason Gregory	Ermelinda DelaVira
Brian Thomas	Joe Brueggeman	Shannon Harrison
Phil Booth	Jon Aldrich	Don Price
Ben Aldrich	Eno Udoh	Gordon Luce
Marquette Hobbs	Brenda Robles	Gerry Mathisen