

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

Wednesday, May 7, 2014 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 9:02 a.m. on Wednesday, May 7, 2014 at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4800 Calhoun, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Roger F. Welder, Chair  
Peter K. Taaffe, Vice Chair  
Paula M. Mendoza, Member  
Beth Madison, Member  
Benjamin P. Wells, Student Regent  
Jarvis V. Hollingsworth, Ex Officio

Non-Member(s) Present

Spencer D. Armour, III, Regent

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. Before introducing Mr. Guyton who will present the agenda items, Regent Welder recognized Mr. Asit R. Shah, our new Student Regent who had recently been appointed by Governor Rick Perry and whose term will begin on June 1, 2014 when our current Student Regent, Benjamin P. Wells' term expires on May 31, 2014.

Following this announcement, Regent Welder stated Mr. Don Guyton, Chief Audit Executive would present the five (5) agenda items to the committee, all of which were for information only.

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AGENDA ITEMS

**Information Items:**

Mr. Guyton stated there was one open point outstanding from the February 26, 2014 Audit and Compliance Committee meeting. Regent Agrawal had asked how long it taken Internal Audit (IA) to clear reports made through the university's anonymous reporting system, "MySafeCampus," when IA made their annual presentation of reports received during the prior fiscal year. Mr. Guyton said that of the 90 reports received during FY2013, over 20% had been cleared within seven (7) days, almost 60% cleared within 30 days, 85% within 60 days, and 93% were cleared within 90 days.

Mr. Guyton introduced Item B, the Report on External Audit Reports – State Audit Report – University of Houston System – SAO Report 14-325 – Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2013. Mr. Guyton stated this agenda item

referred to the UHS excerpts of the State Auditor's recently issued reports on the Federal and Financial Portions of the Statewide Single Audit Report for FY2013. Listed in the report were key points as they related to UHS entities. The auditor's fieldwork at the UH System consisted of an audit of the University of Houston's Federal Financial Aid Programs; a limited review of the UH-Victoria's Federal Financial Aid Programs; and follow-up procedures on prior year audit findings at both the University of Houston and UH-Downtown. Internal Audit believes that all of the State Auditor's recommendations for the UH System entities have now been implemented.

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

Mr. Guyton introduced Item C, the Report on Institutional Compliance Status Report for the Three Months Ended March 31, 2014 – University of Houston System. This report listed activities which included risk assessments, compliance audits, compliance committee meetings, risk mitigation and hotline reports. The remainder of the Institutional Compliance Status Report summarized the information provided for each institution for their compliance functions.

Regent Hollingsworth stated that he had reviewed this report extensively but he wanted to verify with Mr. Guyton that the Board would be informed of anything they should be made aware of in this report. Mr. Guyton confirmed that that was the case and stated that a system-wide compliance meeting was held every quarter and key personnel throughout the system supply updates to representatives of all campuses regarding new laws and regulations, etc.

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

Mr. Guyton presented the next item listed on the agenda, Item D, the Report on Internal Audit Report – Briefing Booklet – University of Houston System. The Briefing Booklet contained an activity outline. Internal Audit (IA) had prepared six (6) Internal Audit Reports since the February 26, 2014 Audit and Compliance Committee meeting; the Executive Summaries of these reports and the Individual Reports were listed in the Briefing Booklet. These reports addressed areas included in the Board-approved Audit Plan and included Departmental Compliance Reviews of the UH College of Natural Sciences and Mathematics and the UH-Downtown College of Humanities and Social Sciences. Internal Audit's annual UH Athletics Football Attendance Certification; a review of Endowments at UH-Clear Lake; and Internal Audit Reports on construction awards and follow-up activities were also listed in these reports. 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. The reports containing a Management Action Plan were also included in the Briefing Booklet; and an overview of all of Internal Audit's recommendations was included in these reports as well.

Audit Report No. 2014-12, Internal Audit's (IA) follow-up report, addressed the status of 21 action items in nine (9) Individual Audit Reports. IA verified that 18 of the action items had been implemented and three (3) partially implemented. Updated management responses were obtained on the partially implemented action items. IA had four (4) high risk items in this report and two (2) of them had been implemented.

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Audit Report No. 2014-13 was the Construction Award Status Report. This is a standing report in the Briefing Booklet, similar to their follow-up 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. This report covered the activity from January 1, 2014 through March 31, 2014. Appendix 1 of this report indicated the scope of the Internal Audit Review. The only activities during this three (3) month period were the selection of the contract managers at risk for the University of Houston (UH) Basketball Practice Facility, the UH Health & Biomedical Building and the architects for the UH Health & Biomedical Building. IA had noted one (1) unusual item with respect to the selection of the contract manager at risk for the UH Basketball Practice Facility: the two highest ranked proposers were ranked at a virtual tie and Facilities, Planning & Construction (FP&C) management had recommended a proposer based upon technical rankings.

Dr. Carlucci explained how the scores were derived. He stated that vendors were scored on a technical score and a cost score. The technical score is based on a list of criteria that include history, prior experience with similar projects, and strength of their management team. The Purchasing Department scores the bid so that the bid score applies to all parties. In this case, the difference between the two firms was .07 (or 7 basis points). Dr. Carlucci stated it was essentially a tie so the recommendation from FP&C was that they would go with the one with the higher technical score because they had received the strongest qualifications and experience ratings from the 7 or 8 evaluators. It is very unusual to have a tie; usually one (1) firm is well above the other firm (we actually look for a standard deviation); but in this case, they were tied. The firm recommended was Austin Commercial located in Texas and the second firm was located in Virginia, said Dr. Carlucci. A brief discussion followed.

Audit Report No. 2014-14 was IA's annual football attendance audit which is required by the NCAA. Included in this report was a table listing the paid attendance for each home game. This year's average attendance was 15,083 (last year's average attendance was 19,316).

Audit Reports Nos. AR2014-15 & AR2014-16 were Departmental Compliance Reviews of the UH-Downtown College of Humanities and Social Sciences and the UH College of Natural Sciences and Mathematics (NSM). IA noted no major issues with these reviews. The College of Natural Sciences and Mathematics is one of the larger colleges at UH and there were quite a few action items noted in the Briefing Booklet. Some of those action items had already been implemented when IA had issued this report. IA had also verified that several other items had also been implemented in addition to those items. Mr. Guyton introduced the Interim Dean from the UH College of NSM, Dan Wells, who was available to answer any questions.

The Summary of Revenues and Expenditures was listed in this report and gave the college's revenues and expenditures but not the institutional transfers or allocations. These budget allocations or transfers were the college's share of State appropriations or formula funding and other institutional allocations. It was also noted that designated tuition was listed at approximately \$12 million in FY2012 and \$0 in FY2013. Prior to FY2013, a student at UH was charged on the basis of the course in which they were enrolled (fees, designated tuition and differentiated designated tuition) and fees and differentiated designated tuition was recognized as revenue in the college and/or department. With the implementation of a composite tuition and

fee based on major in FY2013, the revenue was recognized at the institutional level and budget allocations were made, in part, on the basis of enrollment in the college. As a result, the total sources of funds for a college were the revenues plus the allocations. In the report, it noted the extent of these budget allocations or transfers; and for this college, they were approximately \$56 million. In the other institutions, as illustrated in IA's Departmental Review for UH-Downtown's College of Humanities and Social Sciences, it was noted that tuition was not listed on the Summary of Revenues and Expenditures, as it had always been recognized at the institutional level. Mr. Guyton stated that approximately \$11 million had been transferred to the college, representing its share of formula funding, tuition and other institutional allocations.

Audit Report No. 2014-17 was a report on IA's review of UH-Clear Lake (UHCL) Endowments. They noted opportunities for improvements in defining roles and responsibilities, communicating endowment restrictions, spending down accumulated income and stewardship and reporting. IA made recommendations to UHCL administration and UHS Advancement and they are in the process of implementing these recommendations. Mr. Guyton called on William Staples, President of UH-Clear Lake to comment on this report.

President Staples expressed his appreciation to Mr. Guyton and his staff for a very constructive audit. Basically, what has happened since they visited the campus and presented the audit findings, three (3) separate and distinct meetings were held as follows:

- (a) A meeting between the Associate Vice President for Finance at UHCL and the Associate Vice President for University Advancement. The AVP for Finance reports to the CFO, Michelle Dotter at UHCL and the AVP for University Advancement reports to Dr. Staples.
- (b) There was a meeting with the Associate Vice President for Finance and the Business Coordinators that are in each of the four (4) schools. At UHCL, they have schools as compared to colleges here at UH.
- (c) UHCL CFO, Michelle Dotter, UHCL Provost Carl Stockton, and President Staples met with the deans of the four (4) schools. Very simply, as a result of that, everyone is on the same page.

Dr. Staples gave a brief example of what could happen but did emphasize that in terms of the deans, the CFOs, Provost and VPs, action steps have already been taken based on the work of Mr. Guyton and his staff.

Regent Hollingsworth commented that after reading through the report he believes we may need to tighten up our governance with respect to the endowment; how we manage it; the restrictions; and the potential conflicts of interest. He asked Vice Chancellor for Advancement, Eloise Dunn Stuhr as to whether her office was involved with the four (4) system universities with respect to guidelines on managing endowments and was this the appropriate area for this type of information. Ms. Stuhr stated that they were very involved in the stewardship of their donors. Annual Stewardship Reports are completed and it is at that time that they see whether or not things have been awarded; whether or not we are using the money; and where the money is going. It is a work in progress to make certain that it is handled correctly. Regent Hollingsworth reemphasized that system-wide we should be consistently handling the endowment responsibilities. Guidelines and policies should be in place so that everyone is aware of what the restrictions are. University Advancement is charged with making certain that the overall structure of how the organization and governance is handled throughout the UH System.

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Mr. Guyton referred to the activity outline and stated there were various scheduled audits in the fieldwork in progress or in the planning phase. These audits were included in the Board-approved Internal Audit Plan for FY2014.

Internal Audit also has various special projects in progress. One of these items was the State Comptroller's Post-Payment Audit of the University of Houston. IA expects their report to be on the agenda of the August 20, 2014, Audit and Compliance Committee meeting. IA also received a notice from the Texas Higher Education Coordinating Board that they intended to audit the data submitted by UH for its formula funding. Prior to the last Legislative session, the State Auditor's Office (SAO) was responsible for this audit. The fieldwork for this audit is scheduled for in June 2014. IA also received a notice from the SAO that in conjunction with their annual audit, they intended to audit UH's and UH-Downtown's Federal Financial Aid Programs.

The Audit Plan Status is included on the page following the activity outline. The shaded areas were complete and the footnotes indicated the status on the other areas.

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

The Report on UH System Support Organizations – University of Houston System, Item E, was the next item presented to the committee by Mr. Guyton. This item referred to the Compliance Review of UH System Support Organizations and the UHS Support Organizations Report. The Compliance Review of the UH System Support Organizations indicated the status of the receipt of this information. The Compliance Review was prepared by UH System University Advancement and the accompanying compilation of financial information prepared by the UH System Financial Reporting. It was noted that IA had not received some of the information from some of the foundations to date; in fact, IA had not received the financial statements from the Foundation for Education and Research in Vision for the last two (2) years. Mr. Guyton recognized the Dean of the College of Optometry, Dr. Roger Boltz, to answer any questions on this issue.

Regent Peter Taaffe asked Dr. Boltz about the plan for acquiring this missing information. Mr. Guyton stated the organization had combined two (2) years into one. Dr. Boltz stated that there was a significant increase in costs and because of that and the fact that they had a support agreement which was in the process, the board decided that it would postpone the audit. An audit will be started this month for the previous two (2) years and those reports should be available in June 2014; and then annual audits will be completed each year. A brief discussion followed.

Regent Hollingsworth also requested that at the next Audit and Compliance Committee meeting that a follow-up report be provided on support organizations to update the information provided today. There was also a discussion about the possibility of the System being able to coordinate the engagement of audit services for the support organizations in order to obtain some economies of scale. Vice Chancellor Stuhr will discuss this topic with the support organizations.

Mr. Guyton stated the UHS Support Organizations Report was a compilation of information from audited financial statements, IRS Forms 990, investment reports and other information

furnished to UHS by the Support Organizations. The purpose of this report was to provide information on Support Organizations' activities and the Board of Regents and UH Systems' responsibilities with respect to the foundations. As explained in the report, the regents fiduciary responsibilities to the UH System related to these organizations is addressed in agreements between the UH System and the organizations. In meeting the requirements of the Board of Regents' policy on Support Organizations, the UH System implemented a policy on support organizations which requires them to furnish certain information to the UH System. This requirement was spelled out in our agreements with the Support Organizations. The UH System has been in the process of trying to update these agreements for some time and all agreements have recently been updated as noted on the Compliance Report.

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

Mr. Guyton presented the last agenda item, Item F, the Report on the Statement of Net Position of the University of Houston-Victoria as of August 31, 2013, and the related Statement of Revenues, Expenses, and Changes in Net Position and Statement of Cash Flows for the year then ended and Independent Auditor's Review Report issued by the State Auditor – University of Houston System.

Mr. Guyton stated this report referred to the Report on the Statement of Net Position of the University of Houston – Victoria as of August 31, 2013, and the related Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows for the year then ended and Independent Auditor's Review Report issued by the State Auditor. This report has been prepared for the use of the Southern Association of Colleges and Schools (SACS) in connection with the review of the University of Houston-Victoria for accreditation purposes. The State Auditor's Office requested Internal Audit Departments to perform fieldwork on these types of engagements using the work program provided by the SAO and using the common audit software for working papers that IA obtained through a contract with the SAO. The IA Department performed the majority of this fieldwork for this engagement during December 2013. The SAO issued a clean opinion on this report. The SACS site visit occurred during March 2014; and Mr. Guyton asked the Interim President of UH-Victoria, Dr. Vic Morgan and Vice Presidents Wayne Beran and Provost Jeffrey Cass to comment and give an update on this report.

President Morgan stated they were excited to be at the meeting to report on the SACS visit to UHV. Dr. Morgan has spent many years working with SACS; has chaired numerous committees; served on the commission; chaired one of their criteria review committees; and he stated that he doesn't believe in that entire time that he had ever experienced a school that received just one fairly minor recommendation - and that is exactly what happened with this visit! This recommendation dealt with some qualifications of lower level Student Affairs staff. Dr. Morgan stated he believes this will be easily addressed, but it is absolutely amazing to experience a visit where there were absolutely no findings for the most part. He wanted to compliment the UHV faculty, staff and students and all those involved with the site visit. It was truly an exciting time for the visitors who came to the campus; it was an outstanding visit and an outstanding outcome for accreditation. Of all audits, SACS is the toughest accreditation agency in the nation, said Dr. Morgan.

University of Houston System

Mr. Wayne Beran, CFO for UHV, thanked Mr. Guyton and his group for assisting in this process; President Staples and his staff for their participation and advice; and the Audit and Compliance Committee Chair, Regent Welder, who met with the committee chair of SACS.

Dr. Jeffrey Cass, Provost at UHV, thanked everyone who helped with this process. He stated it takes a multitude of individuals to make it a success. He also thanked Chancellor Renu Khator, UH Provost Paula Myrick Short for her many conversations; Dr. Mrinal Mugdh, Provost at UHCL who was able to consult with UHV; the students, faculty and staff; and finally the community of Victoria who helped with numerous resources, but for the visit itself and the amazing outpouring of support. UHV is very grateful to the System for everything that was done for them.

Chancellor Khator commented that the SACS' team visit was completed during a very difficult time at UH-Victoria because of all kinds of leadership transitions. For the SACS team to go there and leave the campus without any findings was absolutely extraordinary and outstanding and she wanted everyone to applaud the outcome.

This item was presented 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 9:53 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  
Paula Myrick Short  
Dona Cornell  
William Flores  
Vic Morgan  
William Staples  
Rathindra Bose  
Elwyn Lee  
Eloise Dunn Stuhr

Don Guyton  
David Ellis  
Jeffrey Cass  
Wayne Beran  
Oscar Gutierrez  
Ed Hugetz  
Erica Tot  
Michelle Dotter  
Valerie Coleman-Ferguson  
Pam Muscarello

Russ Hoskens  
Margie Hattenbach  
Sandra Dahlke  
Raymond Bartlett  
Asit R. Shah  
Emily Messa  
Fred McGhee  
Tom Ehardt  
Shakana Mohoddin  
Dan Maxwell

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Others Present (cont'd)

Richard Walker  
Darrin Hall  
Shannon Harris  
Teri Longacre  
Brandon Alexander  
Brenda Robles

Dan Wells  
Brian Thomas  
Phil Booth  
Craig Ness  
Gordon Luce  
Gerry Mathisen

Roger Boltz  
Joe Brueggeman  
Jon Aldrich  
Don Price  
Marquette Hobbs