

UNIVERSITY OF HOUSTON SYSTEM  
ADMINISTRATIVE MEMORANDUM

SECTION: Audit Function

NUMBER: 04.A.01

AREA: Audits

SUBJECT: Audits by External Auditors

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1. PURPOSE

This document sets forth procedures to follow when undergoing audits by external auditors. This document also explains how the internal auditing efforts are to be coordinated with those of external auditors, a requirement of the [Board Policy on Internal Auditing, 41.01.4.E](#).

2. COORDINATION OF INTERNAL AND EXTERNAL AUDIT EFFORTS

In accordance with the [International Standards For the Professional Practice of Internal Auditing, No. 2050](#), ~~the Chief Audit Executive shares information and coordinates activities with other internal and external providers of relevant assurance and consulting services to ensure proper coverage and minimize duplication of efforts.~~ the chief audit executive should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.

3. AUDITS BY THE STATE AUDITOR

- 3.1. The State Auditor's Office (SAO) is charged by statute with auditing accounts and records of the state and rendering an official opinion regarding the fairness with which the statewide financial statements present the true financial situation of the state. The System's Annual Financial Report is subject to review by the SAO; however, a separate opinion is not issued on the System's financial statements.
- 3.2. The chief financial officers (CFOs) of the component university being audited and the Chief Audit Executive shall act as general liaisons with the SAO. They shall be informed of all entrance and exit conferences scheduled by the SAO.
- 3.3. Upon completion of the audit, the findings of the audit shall be furnished by the SAO to the general liaisons referred to above. Each component university's responses to the SAO's findings shall be prepared in accordance with the form and schedule prescribed by the SAO. If the component university does not implement a recommendation made by the SAO, the component university will file a report specified in [Section 321.014.\(g\)](#) of the Texas Government Code. Management responses to the SAO's report shall be forwarded by the Senior Vice

Chancellor for Administration and Finance or the Chief Audit Executive to the SAO.

- 3.4. The State Auditor is entitled to immediate access to all of the books, accounts, confidential or unconfidential reports, vouchers, or other records of information in any department or entity subject to audit, including access to all electronic data.

~~3.5. The SAO may also be responsible for conducting the accreditation audits of each component university every 10 years pursuant to the criteria of the Southern Association of Colleges and Schools. The CFO of each component university is responsible for the preparation of the financial statements and arranging for the SAO or other certified public accountant to review these statements. The CFO shall contact the Internal Auditing Department so that this fieldwork can be coordinated with the SAO or other certified public accountant and scheduled in the annual internal audit plan.~~

#### 4. AUDITS BY EXTERNAL AGENCIES

- 4.1. Funding by federal, state and private grants and programs may subject the component universities and System administration to audits by the sponsoring or controlling agency. The CFOs of the component universities, the General Counsel, and the Chief Audit Executive shall be informed of all entrance and exit conferences scheduled for these audits.
- 4.2. The federal government has determined that one federal agency, referred to as the cognizant agent for audit, will do all necessary auditing of direct and indirect costs at a single institution. The Department of Health and Human Services is the cognizant agent for audit for the System. In addition, it should be noted that the acceptance of federal funds carries with it certain implicit audit responsibilities for the receiving agency. Audits of federal grants and contracts are administered under the “Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, Subpart F.”
- 4.3. Participation in privately sponsored research projects or other programs may also, by agreement or contract, subject the participating component university to audits by the sponsoring agency. The scope of authority to audit shall be set out specifically in all privately sponsored or cooperative research contracts or agreements.
- 4.4. In some cases, independent outside auditors other than the SAO may be retained to perform an external audit of a System program. The CFO of the component universities and the Chief Audit Executive shall be informed of all entrance and exit conferences scheduled for these audits.

## 5. AUDITS BY INDEPENDENT OUTSIDE AUDITORS

- 5.1. The System is required to engage the services of independent outside auditors to perform audits and other certain procedures periodically. These engagements address Houston Public Media, the UH Charter School, the endowment fund, intercollegiate athletics, Cancer Prevention Research Institute of Texas Grant Awards and Financial Statement Reviews for the Southern Association of Colleges and Schools. The System occasionally engages certified public accounting firms to perform certain special projects. The CFO of each component university is responsible for engaging the services of independent outside auditors for their respective component university, subject to the contract policies of the Board, System and the specific component university. [Section 321.020\(a\)](#) of the Texas Government Code requires a delegation of authority from the state auditor prior to entering into a contract with an independent outside auditor. The Chief Audit Executive is responsible for requesting this delegation of authority.
- 5.2. The System may require entities, other than state agencies, that receive its funds (grants, loans or other money), as a condition of the receipt of the funds, to have an annual independent audit performed and submitted to the System. These audit reports will be included on the agenda of the meetings of the Audit and Compliance Committee of the Board. Actions taken on any exceptions noted in the audit reports and any related documentation of such actions taken will be provided to the State Auditor, the Legislative Audit Committee, the Legislative Budget Board and the budget division of the Governor's Office, as required by the [Texas Government Code, Section 2113.102](#). The Chief Audit Executive will forward such reports and documentation to these agencies with the transmittals of internal audit reports as required by the [Texas Government Code, Section 2102](#), as enumerated in [SAM 04.A.02, paragraph-Section 5.4](#).
- 5.3. The Chief Audit Executive will be involved in the review of all requests for proposals for the services of independent outside auditors and the proposals received from the accounting firms. Coordination of the internal audit efforts and the external audit efforts should reduce the amount of fees charged by the independent outside auditors. The CFO of the component university being audited and the Chief Audit Executive will be provided with final copies of the audited financial reports and related management letters.
- 5.4. All audited financial statements and related management letters will be submitted to the members of the Board of Regents.

6. REVIEW AND RESPONSIBILITY

Responsible Parties: Chief Audit Executive

Senior Vice Chancellor for Administration and Finance

Review: Every three years on or before March 1

7. APPROVAL

Approved: Don Guyton  
Chief Audit Executive

Jim McShan  
Senior Vice Chancellor for Administration and Finance

Renu Khator  
Chancellor

Date: November 30, 2016

**REVISION LOG**

Revision Number	Approval Date	Description of Changes
1	10/26/1993	Initial version
2	08/18/2003	Applied revised SAM template. Added information to Section 5.1 concerning delegation of authority from the state auditor prior to entering into a contract with an independent outside auditor. Removed VC for Administration and Finance from responsible party
3	04/07/2008	Applied revised SAM template. The Board Policy citation was updated, and a reference to Section 321.20(a) of the Texas Government Code was added to Section 5.1. The word "Audit" replaced "Executive" committee in Section 5.2

Revision Number	Approval Date	Description of Changes
4	06/09/2009	Section 5.1 was updated to include the UH Charter School as a System organization requiring independent outside audit of certain functions and operations annually. Reference to the title “Director of Internal Auditing” was changed to “Chief Audit Executive” throughout the procedure. Added the EVC for Administration and Finance as a responsible party. Changed the review period from every three years on or before April 1 <sup>st</sup> to every three years on or before March 1 <sup>st</sup> . Removed Section 8, Indexing Terms
5	03/22/2012	Applied revised SAM template and added new Revision Log. No additional redlines were needed by determination of the Subject Matter Expert
6	11/30/2016	Updated links and position titles as applicable. Changed title for document in Section 2. Rephrased Section 4.2, and changed reference document. Revised Section 5.1 on periodic audits, with the addition of Houston Public Media, Cancer Prevention Institute of Texas Grant Awards, and Financial Statement Reviews for the Southern Association of Colleges and Schools
<u>7.</u>	<u>TBD</u>	<u>The hyperlink in sSection 2 was out of date. Updated the section was updated with the new link and new wording for the updated International Standards for the Professional Practice of Internal Auditing. Section 3.5 was deleted to reflect that the State Auditor’s Office no longer performs this work and this requirement is already addressed by Section 5.1. Section 4.1 was updated to add the General Counsel</u>