UNIVERSITY of HOUSTON SYSTEM

INTERNAL AUDITING DEPARTMENT

Internal Audit Annual Report

Fiscal Year Ended August 31, 2026

UNIVERSITY OF HOUSTON SYSTEM
Internal Auditing Department
Houston, Texas 77204-0930
(713) 743-8000

October 5, 2026

Fisher Reynolds
Governor's Office – Budget and Policy Division

Internal Audit Coordinator
State Auditor's Office

Christopher Mattson
Legislative Budget Board

The Texas Internal Auditing Act (Act), Texas Government Code, Sec. 2102, as amended requires the Internal Auditor to submit the attached report of the activities of the Internal Auditing Department for fiscal year 2026. This report contains the information requested in the format prescribed by the State Auditor's Office, as required by the Act.

Please do not hesitate to contact me should you have any questions about the contents of this report.

Sincerely,

Phillip Hurd

Phillip W. Hurd
Chief Audit Executive

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I. Compliance with Posting Requirements

To comply with Texas Government Code 2102.015 requirements for posting the Internal Audit Plan and Internal Audit Annual Report, and other information on the internet, the University of Houston System Internal Auditing Department posts its Annual Audit Plan (including any approved updates), the Internal Audit Annual Report, and Internal/External Audit Reports (including weaknesses, deficiencies, etc.) on the UHS Internal Auditing Department's website within the required timeframe at https://uhsystem.edu/internal-audit/.

II. Internal Audit Plan for Fiscal Year 2026

Internal auditing continues to integrate additional analytics, computer assisted auditing techniques (CAAT), robotic process automation (RPA), and artificial intelligence (AI.).

For the fiscal year 2026 audit plan, the internal auditing department obtained input from various resources, including senior leadership, risk owners/stakeholders in various areas, and a completed compliance risk assessment to create a risk inventory. We employed an industry standard methodology considering likelihood and velocity of occurrence; elevation of owner; reputational, financial, and operational impact; and indicators of emerging risk as scoring factors to develop an audit plan. The audit plan employs a near-term and mid-term scheduling methodology for the plan, re-examining both risks and the plan on a bi-annual basis.

The audit plan consisted of specific audits scheduled with 20% of available talent hours reserved for Management/Board requests and investigations. However, considerable time spent on requests and investigations caused the need to readjust the audit plan by not carrying certain audits forward to the next fiscal year, as indicated in the audit plan below.

Audits Carried Forward from Previous Years' Audit Plans (Report Title)	**Report Number/Status of Audit**	**Date Reported to Board**
Procurement Card Management (UH, UHD)	In progress (UH) AR2026-06 (UHD)	N/A 05/21/2026
UHS Board of Regents' Travel & Entertainment Expenditures, FY25	AR2026-02	11/21/2026
UHS/UH Chancellor/President Travel & Entertainment Expenditures, FY25	AR2026-03	11/21/2026
University of Houston-Clear Lake President's Travel & Entertainment Expenditures, FY25	AR2026-04	11/21/2026
University of Houston-Downtown President's Travel & Entertainment Expenditures, FY25	AR2026-05	11/21/2026
Contracts Requiring Board Approval	AR2026-01	11/21/2026
Information Technology Risk Assessment	Completed	N/A
UH Foundation Donor Agreement Expenditures	AR2026-07	11/21/2025
Protected Health Information	In progress	N/A
Research Lab Safety (UH)	In Progress (UH)	N/A
UH Education Research Center	AR2026-09	03/12/2026
Special Projects/Investigations	Confidential Reporting	N/A
FY26 Scheduled Audits (Title of Report)		
Annual Procurement Report, FY 2025	AR2025-15	03/12/2026
Board of Regents Travel & Entertainment, FY26	In progress	N/A
Chancellor/President's Travel & Entertainment, FY26	In progress	N/A
Contracts Requiring Board of Regents Approval	AR2026-13 AR2026-16 AR2026-17	03/12/2026 05/21/2026 08/20/2026
Compliance with Education Code 51.9337	AR2026-08	11/21/2025
Compliance with Education Code 51.3525	AR2026-18	08/20/2026
Joint Admission Medical Program - UH and UH College of Medicine	AR2026-11 AR2026-12	03/12/2026 03/12/2026
Education Research Center	In Progress	N/A
Travel Management and Expenditures	Cancelled	N/A
Information Technology Audit – Compliance with Texas Administrative Code (TAC) 477 (formerly TAC 202)	In progress	N/A
Information Technology Audit - Scope to be determined based on risk assessment in progress	Cancelled	N/A
Continuous Control Monitoring	Continuous	N/A
Audits Added to Plan After Approval – Mandatory Audits (Title of Report)		
UHD Joint Admission Medical Program	AR2026-10	03/12/2026

Deviations from the audit plan resulted from audit requests received from external departments and agencies after the plan was developed. Audit Report AR2026-14 was not issued in fiscal year 2026. The audit is still being finalized and will be issued in fiscal year 2027 with a fiscal year audit report number.

The higher education institution assessment required by Texas Education Code Section 51.9337(h) was issued as Report AR2026-08 and presented to the Audit and Compliance Committee of the UHS Board of Regents on November 21, 2025. The audit concluded that the University of Houston System complied with the statutory requirements.

III. Consulting (Advisory) Services and Non-audit Services Completed

The UHS Internal Auditing Department conducted one consulting (advisory) engagement during fiscal year 2026 related to policies and procedures for foundations. A formal report was not issued.

IV. External Audit Services Procured

External Audit Services procured are listed in the table below upon audit completion and report issuance. These audit reports can be found on the UHS Internal Auditing Department website at Internal Audit: External Audit Reports - University of Houston System (uhsystem.edu).

Procured External Audit Services in Fiscal Year 2026	
Audit Area	**Services Provided**
University of Houston-Downtown (UHD)	Financial and student financial assistance audit of UHD for accreditation review.
Athletics	Annual agreed-upon procedures engagement of Intercollegiate Athletics Department
Cancer Prevention and Research Institute of Texas	Annual agreed-upon procedures engagement of the Cancer Prevention and Research Institute of Texas
Endowment Fund	Annual financial audit of the University of Houston System Endowment Fund
Houston Public Media	Annual financial audit of Houston Public Media
Annual Audits on IAD Audit Plan	Assistance with performing audits on the UHS IAD annual audit plan (reporting through internal audit reports/UHS Board reporting process).

V. External Quality Assurance Review (Peer Review)

The University of Houston System's Internal Auditing Department's most recent peer review found the department to Generally Conform to IIA Standards. The Executive Summary from the Report on the Results of the Quality Assessment Review (QAR) of the University of Houston System Internal Audit, 2023 dated May 12, 2023, is in Attachment A.

VI. Internal Audit Plan for Fiscal Year 2027

The internal auditing department obtained input from various resources, including senior leadership and risk owners/stakeholders. We employed an industry standard methodology considering likelihood and velocity of occurrence; elevation of owner; reputational, financial, and operational impact; and indicators of emerging risk as scoring factors to develop an audit plan. The audit plan employs a near-term and mid-term scheduling methodology for the plan, re-examining both risks and the plan on a bi-annual basis.

Our audit planning approach is designed to provide flexible and continuous coverage of high-risk areas by embedding related elements into broader audit engagements or scheduling them for inclusion

in future audit cycles. This methodology allows for efficient allocation of resources while maintaining comprehensive oversight of high-risk operations and emerging risks across the University of Houston System.

Efficiency improvements that result in additional talent hours will be applied to near-term audits first then to mid-term audits. The Internal Auditing Department continues to integrate analytics, computer assisted auditing techniques (CAAT), Robotic Process Automation (RPA), and basic artificial intelligence (AI) in the audit process to better serve the UHS community.

The University of Houston System Internal Auditing department schedules audits based on targeted dates rather than specified budgeted hours. All non-mandatory audits included in the audit plan are high risk.

Previous audits performed on benefits proportionality identified no significant risks or control lapses. Therefore, a benefits proportionality audit was excluded from the audit plan.

The State Auditor's Office identified the University of Houston System as one of the twenty-five largest state entities for the purposes of Texas Government Code Section 2261.258. The State Auditor's Office has performed audit work covering aspects of fiscal years 2025 and 2026 regarding this statute. Findings from the audit work indicated "no additional monitoring warranted." In addition, the UHS Internal Auditing Department performs regular reviews of the process surrounding contracts over $1 million (presented at each UHS Board of Regents Audit and Compliance Committee Meeting).

The University of Houston System Internal Auditing department developed a UH IT risk assessment and has begun implementing these findings into our annual audit plan. Additionally, an audit specific to compliance with Title l, Texas Administrative Code, Chapter 202 (Information Security Standards) is in process.

Please see Attachment B for the Fiscal Year 2027 Audit Plan.

VII. Reporting Suspected Fraud and Abuse

Actions taken to implement the requirements of:

- *Section 7.09. Fraud Reporting, Page IX-41, the General Appropriations Act (89th Legislature).*
- *Texas Government Code, Section 321.022, Coordination of Investigations.*

1) In accordance with Section 7.09. Fraud Reporting, Page IX-41, the General Appropriations Act (89th Legislature):
   a) The home page of each UHS university's website contains a link which directs the user to the State Auditor's fraud reporting hotline website.
   b) The home page of each UHS university's website contains a link which directs the user to each institutions' vendor supported anonymous reporting hotline.

c) UHS Administrative Memorandum, 01.C.04., Reporting/Investigating Fraudulent Acts, contains instructions for employees to make anonymous reports of fraud to the State Auditor's office.

2) UHS Administrative Memorandum, 01.C.04., Reporting/Investigating Fraudulent Acts, requires the Chief Audit Executive to notify the State Auditor's office of suspected incidents of fraud in accordance with Texas Government Code, Section 321.022, Coordination of Investigations. The University of Houston System Internal Auditing department is responsible for reviewing allegations of fraud. The University of Houston System Internal Auditing department reports incidences that the department believes involve fraud, misappropriation, or misuse of funds received by the Internal Auditing department to the State Auditor's Office.

Attachment A

Report on the Results of the Quality Assessment Review (QAR) of the University of Houston System Internal Audit, 2023

Reviewers:
Robert Clark, Jr., CCEP, CIA, CBM
Mary Krauss, CISA, CRISC, GCIH

Submitted to: Mr. Phillip Hurd, CIA, CCEP
Chief Audit Executive
The University of Houston System

May 12, 2023

Mr. Phillip Hurd, Chief Audit Executive
The University of Houston System
Technology Bridge
5000 Gulf Freeway, Bldg. 3, Room 280
Houston, TX 77204-0930

Dear Mr. Hurd:

We have completed an Independent Full External Quality Assessment Review (QAR) of the University of Houston System Internal Audit Program as required every three years by the Texas Internal Auditing Act (2102) and every five years by the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing* (*Standards*). The objectives of the QAR were to:

1. Assess conformance with the IIA *Standards*;
2. Assess the effectiveness and efficiency of the Internal Audit activity in providing services to the Board of Regents and management of the University of Houston System; and
3. Identify opportunities for enhancing the Internal Audit Program at the University of Houston System.

We are pleased to report that it is our opinion that the **University of Houston System Internal Audit Department generally conforms to the IIA *Standards***, the highest rating available. We commend you for your leadership and progressive approach over the Internal Audit Department. We noted several areas of strength and two opportunities for enhancement that could improve the efficiency and effectiveness of the Internal Audit program. These are described in this report.

Sincerely,

Robert Clark, Jr., CCEP, CIA, CBM
Chief Audit & Compliance Officer
Office of Audit & Compliance
Howard University
Washington DC

Mary Krauss, CISA, CRISC, GCIH
IT Audit Manager
Office of Audit, Compliance & Privacy
Auburn University
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Executive Summary

An Independent Review Team made up of professionals from Howard University and Auburn University conducted an independent full external Quality Assessment Review (QAR) of the University of Houston System (UHS) Internal Auditing Department. The work was conducted in accordance with the requirements of both the *International Standards for the Professional Practice of Internal Auditing* (the Standards), and the *Generally Accepted Government Auditing Standards* (GAGAS).

The UHS Internal Auditing Department and the independent review team assessed the organization using the Institute of Internal Auditors (IIA) Quality Assessment Manual, 2017 Edition. The primary purpose of a Quality Assessment Review is to determine the internal audit function's conformance with the Standards and GAGAS.

The Texas Internal Auditing Act §2102.0011, Internal Audit Standards, requires the internal audit program to conform to the Standards and the IIA's Code of Ethics contained in the Professional Practices Framework, and GAGAS. GAGAS requires an external peer review, performed by reviewers independent of the audit organization, to occur at least once every three years. Our review meets the GAGAS requirement.

The UHS Internal Audit Program was determined to **Generally Conform** to IIA *Standards and GAGAS*, the highest rating available. We noted several areas of strength within the Internal Auditing Department which we feel compelled to acknowledge:

- **Well-Established Governance Tone**
- **Board of Regents and Senior Management Support and Interaction**
- **Incorporation of Data Analytics and Artificial Intelligence into Audit Activities**
- **Professional Development of the Internal Auditing Staff**

Additionally, during the course of our work, we noted a few opportunities for enhancement within the UHS Internal Auditing Department that had already been identified by the CAE. Our encouragement would be for those efforts to continue:

- **Continue to update and enhance internal policies and procedures for coverage of newly incorporated activities of data analytics**
- **Augmentation of Internal Auditing staff to include IT Audit, Healthcare Audit & Compliance, Research Audit & Compliance, and Athletic Audit & Compliance professionals**

Both of these opportunities are further enumerated within this report along with UHS Internal Auditing's management response.

Overall, we want to thank the University of Houston System for their hospitality, professionalism, and commitment to maintaining a quality and high performing Internal Audit function.

Background and Scope

Background

The University of Houston System (UHS) provides, through the complementary missions of its four universities, access to comprehensive higher education programs and services to the diverse community of students in the Houston metropolitan area and beyond. The Internal Auditing Department conducts independent and objective reviews of university operations and procedures and reports findings and recommendations to the UHS Board of Regents, Chancellor and other executive officers.

UHS Internal Auditing Department

Organizationally, the internal audit function reports directly to the Board of Regents which includes the chief audit executive (CAE) reporting directly to the chair of the Board of Regents Audit and Compliance Committee. The Internal Auditing Department (IAD) includes the CAE, 7 professional staff, a Computer Support Analyst, and an Executive Administrative Assistant. The current CAE has been in place since 2020.

The CAE is a highly respected leader in internal auditing in higher education. The UHS IAD is regarded among its higher education peers as being on the leading edge of progressive internal auditing practices, especially in the use of data analytics. The reporting relationship and communication with the Audit and Compliance Committee and UHS' executive management team is a model that other institutions would do well to follow.

IIA Standards – Full External Quality Assessment

This External Quality Assessment of the UHS IAD was performed in accordance with The Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* (the Standards) utilizing the IIA's Quality Assessment Manual, 2017 Edition. The primary purpose of a Quality Assessment is to determine the internal audit function's conformance with the Standards. There are three possible outcomes of the QAR: the internal audit program generally conforms, partially conforms or does not conform with the Standards.

Conformance with IIA Standards

Generally Conforms means that IAD has a charter, policies and processes that are judged to meet the spirit and intent of the IIA *Standards* with some potential opportunities for improvement.

Partially Conforms means deficiencies in practice are noted that are judged to deviate from the spirit and intent of IIA *Standards*, but these deficiencies did not preclude IA from performing its responsibilities in an acceptable manner.

Does Not Conform means deficiencies in practice are judged to be so significant as to seriously impair or preclude IA from performing adequately in all or in significant areas of its responsibilities.

Additionally, the Texas Internal Auditing Act §2102.0011, Internal Audit Standards, requires the internal audit program to conform to the Standards and the IIA's Code of Ethics contained in the Professional Practices Framework, and Generally Accepted Government Auditing Standards (GAGAS). GAGAS requires an external peer review, performed by reviewers independent of the audit organization, to occur at least once every three years. Our review meets that GAGAS requirement.

Scope

We conducted the external quality assessment during the month of April 2023. The UHS Internal Auditing Department supplied the review team with the materials noted below in early April and we then conducted on-site procedures from April 3-6, 2023.

Engagement Methodology

Our procedures included review of the following documents:

- Audit Charter and other background/organizational materials regarding UHS and the internal audit program
- The charter for the UHS Board of Regents (BOR) Committee on Audit and Compliance
- UHS BOR Section V-Audit and Compliance, Policies 41.01-41.01.04
- Texas Government Code, Chapter 2101.001-*Texas Internal Auditing Act*
- System Administrative Memoranda (SAMs) 04.A.02-Audits by Internal Auditing
- QAR advanced preparation materials providing background on the internal auditing program and practices
- The annual audit plan and risk assessment process
- Selected internal audit project workpapers and reports
- Staff training histories
- Audit follow-up practices and reporting

The on-site procedures included:

- Interview with the Chairperson of the UHS BOR Audit and Compliance Committee
- Interview with the UHS Chancellor
- Interviews with UHS Internal Auditing Department staff and UHS officials (see Appendix I for the list of individuals interviewed)
- Analysis of the information reviewed and an assessment of compliance with the Standards

Opinion of Independent Review Team

Overall, **the UHS Internal Auditing Department was judged to Generally Conform to IIA *Standards*, the highest rating available.** While opportunities for enhancement remain in various areas, they did not preclude this assessment. We concluded the following individual standards Generally Conform to the IIA *Standards*:

1000—Purpose, Authority and Responsibility
1100—Independence and Objectivity
1200—Proficiency and Due Professional Care
1300—Quality Assurance and Improvement Program
2000—Managing the Internal Audit Activity
2100—Nature of Work
2200—Engagement Planning
2300—Performing the Engagement
2400—Communicating Results
2500—Monitoring Progress
2600—Communicating the Acceptance of Risks

Strengths, Opportunities for Enhancement, and Management Response

UHS Internal Audit Program Strengths

- **Governance**—The IIA Standards, **1110 – Organizational Independence**, states, "The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity."

  We noted that the UHS CAE reports to the BOR Chair of the Audit and Compliance Committee and that executive sessions are held between the committee and the CAE, which evidences organizational independence. Additionally, the CAE meets monthly with the Chair as well as the Chancellor/President and senior leaders throughout the System to discuss internal audit operations. These activities demonstrate a best practice which all peer reviewers would recommend to their own institutions.

- **Board of Regents and Senior Management Support and Interaction**—Beyond just the formal reporting relationship, our interviews conveyed a high level of support for the IAD from the BOR of the UHS and senior management. The Internal Audit program is well respected and seen as collaborative and not a "gotcha" function. There is a high level of support for the CAE's vision of incorporating more data analytics into their audit engagements. It was clear to us that management feels comfortable seeking their opinion of problematic situations. One of the senior leaders indicated appreciation that the Internal Audit function is now not just looking at past transactions and events, but, as this leader said, "Mr. Hurd is looking at what's around the corner," and having a proactive risk identification and mitigation posture. Another leader indicated that, "If I am in a ditch, I know I can call on Mr. Hurd because he'll help pull me out." It is evident to us that the CAE and the Internal Auditing Department at UHS is seen as a "trusted advisor."

- **Incorporation of Data Analytics and Artificial Intelligence**—Our work identified that the Internal Auditing Program had established, since the last QAR, the use of data analytics and artificial intelligence to improve the effectiveness of audits and identify trends and items that may otherwise have been easily overlooked using the previous traditional sampling methodology. The tools being used, and the training that is being provided for the Internal Audit team, appears to have already led to demonstrable improvements in the identification of areas of risk that had previously not been assessed as comprehensively (e.g., P-Card audit). Our perspective is that this is a leading-edge practice in the profession of internal auditing in higher education. This is also expected to be emphasized in the updated IIA Standards that should be forthcoming in the next year. We believe this will add significant value to the BOR and leadership of the UHS and that the University of Houston Internal Audit function will be recognized as proactive industry leaders in this space.

- **Professional Development of the Internal Auditing Staff** – The IIA Standards 1230 – Continuing Professional Development, states, "Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development."

  The CAE has put in place a robust skills assessment and professional development framework for the IAD. It is well-structured and comprehensive and has led to detailed professional development plans

for each member of the team. There was highly positive feedback about this process from the IAD staff and each member indicated their enthusiasm for the intentional approach and personally-designed plans to enhance their skills, knowledge and competencies. We were also impressed with the CAE's vision for professional development extended past just traditional internal auditing skills, but includes leadership, management and effective communication skills training. The development of these soft skills will, in our opinion, help to further enhance the perception of the entire IAD team being "trusted advisors" in carrying out their responsibilities.

Opportunities for Enhancement—Internal Auditing Department

- **Update and Enhance Policies and Procedures to Address New Methodologies of Data Analytics**

With the incorporation of the use of data analytical tools and migrating away from some of the internal auditing processes that were identified as being not as valuable, the CAE has identified the need for a significant overhaul of the IAD's internal policies and procedures. The fact that this was identified by the CAE and the IAD team prior to our engagement demonstrates the IAD's adherence to the IIA Standards **1300 – Quality Assurance and Improvement Program (QAIP)** which states, "The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity."

It was evident from our review that the IAD team is actively undertaking this initiative and they are being thorough in their documentation of some of these brand-new processes. Our encouragement would be that they continue with these efforts and set target dates for completion as well as establishing a cadence of annually reviewing the documentation to update where necessary.

It should be noted that this should **not** be seen as a "deficiency," but rather an encouragement to continue on the path they are already on to document some of these best-practice methodologies. This will also be helpful in the onboarding and training of additional Internal Audit staff.

- **INTERNAL AUDITING DEPARTMENT'S RESPONSE:**

The Internal Auditing Department (IAD) appreciates the external review team's feedback and concurs with the assessment regarding the enhancement of our policies and procedures to address new methodologies of data analytics. We acknowledge the importance of this evolution in our approach, not only for the optimization of our audit processes but also for the overall quality assurance and improvement of our department's activities. We are committed to this undertaking, recognizing it as an opportunity to incorporate best-practice methodologies, further develop our data analytics capabilities, and continuously improve the effectiveness of our audits. Your encouragement reinforces our resolve to stay on this path, and we will strive to meet set target dates for completion while maintaining a cycle of annual reviews for necessary updates. We look forward to the benefits this will bring, including the enhanced onboarding and training of our Internal Audit staff.

We will address the first opportunity for improvement by:

1. The IAD will harness the power of AI to develop a comprehensive project plan for this overhaul, which will include specific target completion dates for each crucial task. This plan will be augmented by AI-driven project management tools that can facilitate progress tracking and enhance collaboration across the team.

2. This AI-enhanced plan will be communicated across the team, ensuring everyone is clear on their role in accomplishing these objectives.

3. The IAD will implement a recurring annual review of our policies and procedures, using AI to identify areas of potential improvement and maintain their relevance and effectiveness.

4. Thorough documentation of new processes will be a priority, facilitated by AI-powered document management systems. These systems will ensure that documents are easily created, updated, and accessible to all team members.

5. Lastly, the IAD is committed to leveraging AI technology to enhance our onboarding and training programs. We will develop AI-powered training modules that provide immersive and personalized learning experiences. These modules will focus on the latest Internal Audit Standards from both the IIA and GAGAS, ensuring our staff is well-equipped to carry out their tasks effectively. AI will allow us to update training materials in real-time, reflecting the most recent changes and best practices in the industry.

- **Augmentation of Internal Auditing Staff**

The IIA Standards, **1210 – Proficiency (b)** states, "The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities."

As part of the CAE's **Quality Assurance and Improvement Program,** the CAE has identified areas in which the IAD does not have the existing knowledge, skills or competencies to adequately address the operational needs of the UHS. Our peer review assessment independently confirmed the CAE's identified need for the IAD team to be enhanced to include:

- **IT Audit** – While there is one person on the IAD team, besides CAE Hurd, with IT Audit experience, one IT Auditor does not appear to be sufficient to address the needs of the organization. While there is a concerted effort to develop the IT audit skills of the IAD team, our recommendation would be to augment the IAD team with an additional IT Auditor(s) to ensure the IAD is able to address the increasing demands on information technology and cybersecurity throughout the UHS. This should include professionals with the proven experience in auditing cybersecurity, Cybersecurity Maturity Model Certification (CMMC), network security, identity access management (IAM), PCI data security, HIPAA/HITRUST, and other applicable areas of IT risk.

- **Healthcare Audit** – As the lead on this QAR, and being from a University with a College of Medicine, Faculty Practice Plan, multiple medical clinics, and a fully operational teaching hospital, I can speak to the importance of making sure the IAD has the specialized skills, knowledge and competencies to provide internal audit oversight over the growing healthcare components of UHS. Adding a resource that has the depth of experience in healthcare auditing and compliance will help to ensure the critical areas of risk are identified and monitored by the IAD. This should include professionals with proven experience in auditing and monitoring billing and coding, HIPAA Privacy Rules, revenue cycle, security of Protected Health Information (PHI), provider exclusions and sanctions monitoring [against Health and Human Services – Office of Inspector General (HHS-OIG) and General Services Administration System for Award Management (GSA-SAM.gov) which maintains the List of Excluded Individuals and Entities (LEIE)], and other applicable areas of healthcare risks.

- **Research Audit** – With UHS's remarkable growth and move to R1 status, there is an opportunity to enhance the IAD with individuals who are steeped in their knowledge of Uniform Guidance, Pre- and Post-Award administration, effort certification, grants and contracts accounting, CMMC, and other areas germane to this specialized area.

- **Athletics Audit** – With UH joining the Power 5 conference, and the dramatically increased revenue anticipated, there will be an increased level of scrutiny that UH will receive. To ensure the IAD is able to serve as "trusted advisors" in this process and regularly monitor the activities in the Athletic program, it would be prudent for the UHS leadership to augment the resources of the IAD to ensure there are individuals with the applicable skills, knowledge and competencies to address these strategic areas.

While it is the plan of the CAE to expand the professional development of each existing IAD team member to be more aware of the nuances of these areas above, it is our opinion that, to effectively address the unique areas of inherent risk, augmenting the IAD team with individuals who have these

specialized skills and expertise would help serve the UHS well.

- **INTERNAL AUDITING DEPARTMENT'S RESPONSE:**

IT AUDIT:

The IAD recognizes the need to strengthen our proficiency in IT and Research Security auditing. To address this, we will recruit a seasoned auditor with extensive experience in these areas. However, we also acknowledge the wealth of knowledge and expertise available within the University of Houston's own community.

To capitalize on this internal resource, we plan to introduce a job rotation program involving employees from the Information Technology department. This initiative will provide cross-functional exposure, enhancing the collective skill set of the IAD team while fostering a deeper understanding of our operational intricacies.

Further, in an effort to nurture future talent, the IAD will establish an internship program in collaboration with our Information Technology teaching areas. We believe this integration will not only offer valuable real-world experience for our students but also infuse fresh perspectives into our audit processes.

We are confident that these strategies will enable us to meet the increasing demands of information technology and cybersecurity throughout the UHS, aligning our capabilities with the standards set by the IIA.

HEALTHCARE AUDIT

In light of the rapid growth of the University over the past two decades, the IAD acknowledges the increasing complexity and diversity of our healthcare operations. To ensure our audit activities adequately cover all relevant areas, we will embark on an extensive "inventory" exercise as part of our next annual audit plan. This undertaking will allow us to identify all areas handling Protected Health Information (PHI) and assess the adequacy of safeguards in place.

Recognizing the potential of AI to enhance our audit capabilities, we will explore various applications of this technology in healthcare auditing. This includes AI-driven risk identification and assessment, regulatory compliance monitoring, predictive analytics for proactive risk management, automation of certain auditing processes, and continuous real-time monitoring of potential issues.

Upon the completion of our inventory, the IAD will use the insights gained, including those from AI analyses, to develop a comprehensive audit plan tailored to the unique needs and risks associated with each identified area. We acknowledge that an effective approach may involve a combination of strategies.

These could involve recruiting additional healthcare auditors to our team, co-sourcing or outsourcing auditing services to leverage industry-specific expertise where needed, and making optimal use of existing resources, including AI tools, within the UHS. We also welcome suggestions for innovative approaches to strengthen our healthcare auditing capabilities.

The IAD is committed to providing robust audit oversight over the growing healthcare components of the UHS, ensuring that critical risk areas are identified, monitored, and managed effectively.

RESEARCH AUDIT

The IAD acknowledges the close interplay between IT Security auditing and Research auditing,

particularly with respect to NIST-171 and the CMMC. Consequently, we intend to leverage our strategies and resources in IT auditing to enhance our capabilities in Research auditing.

A key element of this approach will be upskilling our team on research auditing, utilizing the expertise of our IT auditor. To further bolster our efforts, we plan to employ AI, machine learning, and Robotic Process Automation (RPA) technologies.

These advanced tools will allow us to streamline the audit process, identify patterns and anomalies, predict potential risks, and ensure continuous real-time monitoring of research activities. With these strategies, we aim to provide robust oversight over UHS's growing research operations, ensuring the integrity, efficiency, and compliance of these critical activities.

NCAA AUDIT

The IAD recognizes the unique challenges and complexities associated with auditing athletics, particularly in relation to NCAA compliance. To this end, we intend to assign a dedicated auditor to oversee athletics auditing.

Recognizing the role of continuous learning in effectively addressing these challenges, we plan to invest in the upskilling of this auditor, focusing on NCAA compliance and rules. This training will provide the auditor with the necessary knowledge and skills to effectively oversee this critical area.

Moreover, to further enhance our auditing capabilities, we will explore the integration of AI, RPA, and machine learning technologies into our audit process. These advanced tools will provide a range of benefits including improved data analysis and pattern recognition, continuous compliance monitoring, predictive analytics for proactive risk management, and automation of routine auditing tasks.

We also see potential in leveraging AI for personalized training and education for athletes, coaches, and staff about NCAA rules and regulations. This could play a vital role in preventing unintentional violations and fostering a culture of compliance.

With this multi-faceted approach, the IAD aims to provide robust and effective oversight of athletics and NCAA compliance. We believe that by combining human expertise with advanced technology, we can ensure a high level of integrity, efficiency, and compliance in our athletics operations, in line with the IIA Standards.

The Internal Auditing Department (IAD) extends our sincere gratitude to the peer review team for their diligent and insightful assessment of our department. Your expert recommendations provide valuable guidance as we strive to enhance our auditing capabilities and better serve the University of Houston System (UHS). The IAD acknowledges the necessity of continually aligning our staff positions with the evolving risk landscape of the UHS. We are committed to regularly evaluating our team composition, skills, and competencies to ensure they are tailored to address the unique and diverse areas of inherent risk within our system effectively. This process will be integral to our ongoing efforts to uphold the IIA Standards, meet the operational needs of the UHS, and contribute to the overall integrity, efficiency, and resilience of our university system. We look forward to the continued growth and improvement of our department with these actions.

Appendices

Appendix I

Interviews Conducted:

Board of Regents
Mr. Jack Moore, Vice Chairman, UH System Board of Regents and Chair of the Audit and Compliance Committee

Senior UHS Management
Dr. Renu Khator, Chancellor/ President
Mr. Raymond Bartlett, Sr. VP for Administration and Finance
Dr. Robert Glenn, President, UHV
Dr. Loren Blanchard, President, UHD
Mr. Mark Denny, VP for Administration and Finance
Ms. Dona Cornell, Vice Chancellor for Legal Affairs and General Council
Ms. Karin Livingston, Associate Vice Chancellor and Associate VP for Finance
Ms. Susan Koch, Chief Compliance Officer
Dr. Dennis Fouty, Associate Vice Chancellor and Chief Information Officer

UHS Internal Auditing Department
Mr. Phillip Hurd, Chief Audit Executive
Ms. Brandee O'Neal, Director, Operational and Financial Audits
Mr. Tony Moreno, Senior Auditor
Ms. Kim Gerry, Senior Auditor
Ms. Connie Applebach, Auditor III
Mr. Eric Porter, Staff Auditor III
Ms. Emily Tran, Staff Auditor II
Mr. Elias McClellan, Staff Auditor II
Mr. Johnnie Bouy, Computer Support Analyst
Ms. Barbara White, Executive Administrative Assistant

Attachment B

Annual Internal Audit Plan
FY 2027

August 20, 2026

Overview

1. Internal Audit Definition
2. Staff Members and Certified Competencies
3. Proposed Audit Plan
4. Additional Points

Definition of Internal Auditing

"Internal auditing is an independent, objective assurance and advisory service designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of and governance, risk management, and control processes."

Existing Year Projects that are in Process		
TITLE	**STATUS**	**COMMENTS**
Procurement Card Management (UH)	Project Currently In Progress	In reporting (UH)
Travel & Entertainment Expenditures - Board, FY26	Project Currently In Progress	Board Requested - Continual -Report in November
Travel & Entertainment expenditures - President, FY26 (UH, UHCL, and UHD)	Project Currently In Progress	Board Requested - Continual -Report in November
Contracts Requiring Board Approval	Project Currently In Progress	Board Requested - Continual -Report each quarter
Compliance with Texas Administrative Code 202	Project Currently In Progress	In fieldwork
Protected Health Information	Project Currently In Progress	In fieldwork
Lab Safety (UH)	Project Currently In Progress	In reporting
UH Education Research Center	Project Currently In Progress	In planning
Joint Admission Medical Program (JAMP) - UH College of Medicine	Not Yet Assigned	Awaiting Notification from JAMP
Special Projects/Investigations	Project Currently In Progress	Multiple special projects/investigations ongoing

University of Houston System
Internal Auditing Department
FY 2027 Audit Plan

Additions to Audit Plan Based on Risk Assessment and Risk Register									
ENGAGEMENT TITLE	**GROUPING**	**TYPE**	**SCOPE**	**TIME FRAME**	**INCLUSION RATIONALE**	**Entity to be Audited**			
	Assurance Blended Consulting Special Project	**Compliance Financial Information Technology Investigation Operational**	**Controls Review Full Review Limited Review**	**Near Term - 1-6 Months Medium Term - 7-12 Months Long Term - 13-18 Months**		**UHS**	**UH**	**UHCL**	**UHD**
Annual Procurement Report	Assurance	Compliance	Limited Review	Near Term - 1-6 Months	Mandatory Audit	x	x	x	x
Board of Regents Travel & Entertainment, FY 2027	Assurance	Compliance	Limited Review	Medium Term - 7-12 Months	Mandatory Audit	x			
Chancellor/President's Travel & Entertainment, FY 2027	Assurance	Compliance	Limited Review	Medium Term - 7-12 Months	Mandatory Audit		x	x	x
Compliance with Education Code 51.3525 (DEI Compliance)	Assurance	Compliance	Limited Review	Medium Term - 7-12 Months	Mandatory Audit	x	x	x	x
Compliance with Education Code 51.9337 (Policy Review)	Assurance	Compliance	Limited Review	Medium Term - 7-12 Months	Mandatory Audit	x			
Conflict of Commitment	Mgt. Request	Multiple Aspect	Controls Review	Near Term - 1-6 Months	Ensure compliance		x	x	x
Continuous Control Monitoring	Assurance	Compliance	Limited Review	Near Term - 1-6 Months	Ensure compliance	x	x	x	x
Contracts Requiring Board of Regents Approval	Assurance	Compliance	Limited Review	Medium Term - 7-12 Months	Mandatory Audit	x	x	x	x

University of Houston System
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Additions to Audit Plan Based on Risk Assessment and Risk Register									
ENGAGEMENT TITLE	**GROUPING**	**TYPE**	**SCOPE**	**TIME FRAME**	**INCLUSION RATIONALE**	**Entity to be Audited**			
	Assurance Blended Consulting Special Project	**Compliance Financial Information Technology Investigation Operational**	**Controls Review Full Review Limited Review**	**Near Term - 1-6 Months Medium Term - 7-12 Months Long Term - 13-18 Months**		**UHS**	**UH**	**UHCL**	**UHD**
Education Research Center	Assurance	Compliance	Limited Review	Medium Term - 7-12 Months	Mandatory Audit		x		
Family Medical Leave Act	Mgt. Request	Multiple Aspect	Controls Review	Medium Term - 7-12 Months	Ensure compliance		x	x	x
Foundation for Education & Research in Vision Donor Agreement Expenditures	Assurance	Compliance	Controls Review	Medium Term - 7-12 Months	Ensure compliance	x	x	x	x
Houston Cougar Foundation Donor Agreement Expenditures	Assurance	Compliance	Controls Review	Near Term - 1-6 Months	Ensure compliance	x	x		
Houston Public Media Foundation Donor Agreement Expenditures	Assurance	Compliance	Controls Review	Near Term - 1-6 Months	Ensure compliance	x	x		
IAD Audit Task Automation	Other	Compliance	Controls Review	Near Term - 1-6 Months	Efficiency and Effectiveness	x	x	x	x
Information Technology Audit - Scope to be determined	Assurance	Information Technology	Controls Review	Near Term - 1-6 Months	Efficiency and Effectiveness	x	x	x	x
Information Technology Audit - Scope to be determined	Assurance	Information Technology	Controls Review	Medium Term - 7-12 Months	Ensure compliance	x	x	x	x

University of Houston System
Internal Auditing Department
FY 2027 Audit Plan

Additions to Audit Plan Based on Risk Assessment and Risk Register									
ENGAGEMENT TITLE	**GROUPING**	**TYPE**	**SCOPE**	**TIME FRAME**	**INCLUSION RATIONALE**	**Entity to be Audited**			
	Assurance Blended Consulting Special Project	**Compliance Financial Information Technology Investigation Operational**	**Controls Review Full Review Limited Review**	**Near Term - 1-6 Months Medium Term - 7-12 Months Long Term - 13-18 Months**		**UHS**	**UH**	**UHCL**	**UHD**
Multihazard Emergency Operations Plan; Safety and Security Audit	Assurance	Compliance	Limited Review	Medium Term - 7-12 Months	Mandatory Audit	x	x	x	x
Procurement Card Follow Up Review	Assurance	Compliance	Limited Review	Medium Term - 7-12 Months	Ensure compliance	x	x	x	x
UH Alumni Association Donor Agreement Expenditures	Assurance	Compliance	Controls Review	Medium Term - 7-12 Months	Ensure compliance	x	x		

Additional Points

- 20% of available talent hours are reserved for Management/Board requests and investigations.

- Improvements in efficiencies which result in additional talent hours will be applied to near-term audits first, then to mid-term audits.