Thursday, May 24, 2018 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 9:47 a.m. on Thursday, May 24, 2018, at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

<table>
<thead>
<tr>
<th>Members Present</th>
<th>Non-Member(s) Present</th>
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<tr>
<td>Peter K. Taaffe, Chair</td>
<td>Paula M. Mendoza, Regent</td>
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<tr>
<td>Durga D. Agrawal, Vice Chair</td>
<td>Jack B. Moore, Regent</td>
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<tr>
<td>Gerald W. McElvy, Member</td>
<td>Neelesh C. Mutyala, Student Regent Non-voting</td>
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<td>Doug H. Brooks, Member</td>
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Members Absent
Tilman J. Fertitta, Ex Officio Member

In accordance with a notice being timely posted with the Secretary of State and there being a quorum in attendance, the Chair of the Committee, Peter K. Taaffe called the meeting to order at 10:35 a.m. Regent Taaffe stated the committee would be presented six (6) items, all of which would be presented for information only.

Regent Taaffe stated the first order of business would be Item B, the approval of the minutes from the March 8, 2018, Audit and Compliance Committee meeting listed on the committee’s agenda.

**Action Items:**

1. Approval of Minutes – Item B

   On motion of Regent Agrawal, seconded by Regent McElvy, and by a unanimous vote of the regents in attendance, the following minutes from the meeting listed below was approved:

   - March 8, 2018, Audit and Compliance Committee Meeting

**AGENDA ITEMS**

Following the approval of the minutes, Regent Taaffe stated Mr. Guyton would introduce all of the remaining items listed on the agenda.

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Mr. Guyton began his remarks and stated there were no open points from the March 8, 2018 committee meeting; and took this opportunity to introduce his new student intern from the Bauer College of Business, Natalia Grecu. Ms. Grecu is a senior and plans to go into the professional section of the Master’s Accountancy Program which also preps for the CPA. She will be assisting Mr. Guyton and his area between semesters this summer and he values her services.

The first agenda item introduced by Mr. Guyton was Item C, a Report on External Audit Report – UHS, Houston Public Media, Auditor’s Report and Basic Financial Statements for FY2017 – University of Houston System. Mr. Guyton stated this item referred to the Annual Audit Report and Management Letter on the Houston Public Media (HPM) financial statements. The auditor’s opinion on the financial statements was unqualified. The Financial Highlights and Analysis Section of the financial statements had pointed out large differences between the FY2016 and FY2017 financial statements. The basic financial statements had shown that under the current liabilities section, the amount due to the University of Houston System had increased from $8.7 million to $9.6 million. It was also noted that in the Statements of Revenues, Expenses and Changes in Net Position that the operating loss had decreased from $3.4 million to $.4 million. The Management Letter this year did not point out any material weaknesses. Mr. Guyton introduced Mr. Jim McShan, Senior Vice Chancellor for Administration and Finance, who was present at the meeting and available to answer any questions.

Regent Taaffe stated that since there were new board members in attendance at this meeting, he wanted Mr. McShan to address the Public Media’s note payable to UH System; how it was structured; how it was intended to be paid off; and what the status was of paying it off.

Mr. McShan presented a brief history of this issue for the board. Prior to 2011, the HPM organization had walked along close to even - sometimes over or sometimes under, but their total accumulated debt was approximately a little less than $1.0 million. Around that time, a strategic decision had been made to add an additional asset to HPM’s existing services which was a classical music station. Public Media’s liability to UH System began to increase. In 2016, approval was requested, and permission was received, to sell that particular station. In 2016, Public Media showed a $3.4 million loss. Public Media’s plan to pay the note to UH System was to reduce expenditures and increase revenues. The $400,000 loss in 2017 was actually a profit prior to depreciation. Mr. McShan pointed that out.

If Public Media were to sell all of the assets and pay off all of the liabilities, there would be $3.7 million in debt. Mr. McShan explained that HPM was on track this year for revenues to exceed expenses. The bottom line, to begin to pay down the debt, there had to be an increase in the revenues. The university itself is looking for opportunities to work with the station in order for the university to benefit from some of our programs, etc., while at the same time being able to offset some of the expenses and provide revenue to the station.

Mr. McShan stated it was not the best scenario but it was going in the right direction where some of the expenditures were being reduced and stabilizing. A 20-year pro forma had been presented last year to the board and it was on track for 2017 and 2018, with the gradual being paid down. The proposal was to pay down approximately $150,000 this year while still maintaining a positive result.
Regent McElvy addressed this issue and stated that even though there was a 20-year pro forma, he felt that it should be over a reasonable timeframe; therefore, he thought we should look at a shorter term and a more specific plan to put them on a better path. In other words, generate higher margins in the short term to bring the debt down sooner. Mr. McShan stated the whole intention was to look for additional opportunities to decrease the expenditures but look at other opportunities to increase revenues.

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


Mr. Guyton stated this agenda item referred to the University of Houston (“UH”) excerpts of the State Auditor’s recently issued reports on the Federal and Financial Portions of the State-wide Single Audit Report for FY2017. At the beginning of this item, a listing of key points in the reports were related to UH. (This was the only UH System (“UHS”) entity addressed in this report.) The auditor’s fieldwork at UH had consisted of an audit of UH’s Federal Financial Aid Programs and follow-up procedures on prior year audit findings at UH. The next pages of the report addressed the auditors’ follow-up procedures on prior year recommendations. All but one of these recommendations related to UH Federal Financial Aid and the other one referred to Research and Development. Some of the State Auditor’s recommendations for UH had been implemented and the State Auditor’s Office will perform follow-up procedures this year to determine the status of their FY2017 recommendations. Mr. Guyton also noted that another audit will be taking place by the Department of Education in the Financial Aid area which is scheduled for next month.

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

Mr. Guyton moved to Item E, the Report on Implementation of Board of Regents Policy 69.01, Public Safety – University of Houston System and stated this item had referred to the report on the Implementation of Board of Regents policy 69.01, Public Safety. This policy was approved in May 2016, and Mr. McShan was asked to give the board an update on the status of the implementation of this policy.

Mr. McShan reiterated the policy had been implemented in 2016 to provide System oversight of each of the System University Police Departments. Prior to that, there was no formal relationship between each of the campuses as far as the police departments were concerned. The goal was to be able to share the knowledge and expertise across the various police departments as well as the concerns of the different policies and certain activities that would cause potential for liability to the UH System if we were inconsistent with these policies.

Over the past 18 months, monthly chief’s meetings have been held which have accomplished the following:

1. Information sharing;
2. Coordination of Communication;
3. Congruency of Strategies;
4. Line Supervisors – Table Top Scenarios;
5. Training – Sharing of Resources and Skilled Staff; and
6. Policy/General Order Development

Mr. McShan stated that system-level policies (General Orders) have been established. Campus specific protocols are used to address the unique needs of each campus. These policies (General Orders) have been written applicable to all the System universities which include: drug testing, pursuit of motor vehicles, use of force, search and seizure, care, custody of prisoners, domestic violence, property and evidence, extra jobs and secondary employment, sexual harassment, selection and hiring, internal investigations, special operations, and encounters with the mentally ill. It was noted that any one of the General Orders mentioned, could one way or the other, have significant legal complications if they were not handled consistently across the campuses.

For the first time, table-top exercises were held between UH, UHD and UHCL. For information purposes, Mr. McShan clarified that the police at the UHV campus were part of the UH Police Department; and they agreed going forward there would be System-wide exercises held at least twice a year.

Annually, for compliance purposes, a Clery Report must be completed. This report deals with the criminal activity on the campus and within a certain perimeter of the campus. To ensure that the UH System stays compliant, a System Clery Coordinator oversees all Clery-related functions; protocols are established, implemented and utilized; and Clery training pillars are identified and required for selected personnel. Mr. Jason R. Marquez is the System Clery Coordinator for the UH System and reports to the Chief of Police at UH.

The Active Shooter Preparation was addressed. This is a very important issue for everyone and it was noted that an officer skills training (ALERT) is offered; training for civilian personnel (which includes faculty, staff and students); community skills training or CRAZE; the website has been updated for more up-to-date and useful information; address weaponry in certain situations; supervisory skill development for each of the campuses; outside training; drills (full and/or partial) are held should such an action be required; and coordination/communication with Internal Media. Mr. McShan stated that communication is one of the key elements when such an event happens as an “active shooter.”

Mr. McShan also mentioned that System-level Memorandum of Understandings (MOUs) have been developed with various neighboring police agencies, such as: the Houston Police Department and Four (4) other Municipal Departments; Harris and Galveston County Sheriff’s Office; Harris County Constable Pct. 8; Rice and TSU Police Departments; and Texas Parks and Wildlife.

Prior to the implementation of this policy, UH was accredited through IACLEA in May 2014; UHCL was accredited through IACLEA in May 2018; and UHD’s projected accreditation date will be in December 2018.
This item was presented for information only and no further board action was required.

The next item addressed by Mr. Guyton was Item F, a Report on Institutional Compliance Status Report for the Three Months Ended March 31, 2018 – University of Houston System. This report referred to the Institutional Compliance Status Report for the three (3) months ended March 31, 2018. This report listed activities which included risk assessments, compliance audits, compliance committee meetings, risk mitigation, and hot-line reports.

Mr. Guyton stated the remainder of the Institutional Compliance Status Report summarized the information provided for each institution for their compliance functions. Mr. Guyton brought attention to an activity that was listed under the Equal Opportunity Services Section of the report which listed a new mandatory training program for all full-time staff and faculty; and then introduced Dr. Richard Baker, Assistant Vice Chancellor/Vice President of Equal Opportunity Services for an update on the status of this mandatory training.

Dr. Baker stated that in February 2018, the President’s Cabinet had met and discussed how institutions were failing in their responsibilities to implement Title IX on their campuses. One of the issues addressed was the fact that when individuals receive reports of sexual misconduct they do not know what to do with it. Under policy and under the law, an individual is obligated to report it. With this in mind, it was decided that, at the charge of the Chancellor, every single employee would be trained as to their responsibilities in this regard. The training would be live (not online); there would be less than 100 individuals in a room; and have the trainers look them in the eye and tell them what they needed to do. Even though the directive was a challenge to get the training completed by May 1, 2018 – it had been accomplished! Between March 1, 2018 and May 1, 2018, over 8,000 employees were trained which included not only full-time employees but all others as well. The training was 45 minutes in length and 150 live trainings were held. It was noted by Mr. Guyton that as a result of this training, more anonymous reports had been received.

Mr. Guyton mentioned one other compliance area of concern which was a regulation being implemented shortly in the European Union, the General Data Protection Regulation or GDPR. Mr. Guyton asked Dona Cornell, Vice Chancellor and General Counsel to comment on this issue.

Ms. Cornell stated that the GDPR was a new general privacy law that was passed by the European Union (“EU”) and goes into effect on May 25, 2018. The reach of this law was greater than one would anticipate but they were creating all kinds of new requirements as it was related to anyone browsing on the Internet; that looks at our information; students who might look at our information that may be in the EU; alumni that may be communicating with someone here; etc. The reach was incredibly broad. The obligations on the university were quite intense. The university has put together a GDPR Task Force led by Susan Koch, UH Compliance Officer, who will be reviewing and working through this process. Ms. Cornell asked Ms. Koch to give a brief description of the regulation to the board.

Ms. Koch stated that as previously mentioned, this was a new privacy law going into effect tomorrow, May 25, 2018, that has extra territorial reach. It is quite extensive, has 99 articles,
and there is a lot that will need to be understood; and it is potentially applicable to organizations that are outside of the EU if there is personal data that is collected from individuals in the EU even if they are not residents or just temporarily there for a short term. The university is evaluating that; and in order to understand what we need to do and the potential applicability to the System, a GDPR Task Force has been created with different representatives from the various universities within the System as well as different divisions. They have been disseminating an online assessment in order for us to know the different touchpoints throughout the university so we can figure out what we need to do to comply. There will likely be some new privacy notices, some additional data security measures, as well as consents in certain contexts.

Regent Taaffe asked Ms. Koch if there would be a report completed following their review and she stated that once the GDPR Task Force has their findings, they will be submitted to the General Counsel and then presented to the Board.

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

Mr. Guyton moved to the next item listed on the agenda, Item G, a Report on Internal Audit Briefing Booklet including Audit Activity Outline/Audit Plan Status, Internal Audit Reports, and Internal Audit Quality Assurance Improvement Program Report – University of Houston System. Mr. Guyton stated this item referred to the Report regarding the Internal Audit Briefing Booklet which contained an Activity Outline. Internal Audit (“IA”) had prepared five (5) Internal Audit Reports since the March 8, 2018, Audit & Compliance Committee meeting. The Executive Summaries of the Internal Audit Reports, as well as the Individual Reports, were listed in the Briefing Booklet as well. These reports addressed areas included in the Board-approved Audit Plan and included Departmental Reviews of the UH University Libraries, the UH College of Technology, and the UH-Downtown (“UHD”) College of Public Service, which also included their report on follow-up activity and their Report on Construction and Other Contracts Requiring Board approval. These reports will be submitted to the Sunset Advisory Committee; the Governor’s Office of Budget, Planning, and Policy; the State Auditor; and the Legislative Budget Board, as required by the Texas Government Code. Some reports contained Management Action Plans and were included in this document as well. An overview of all of IA’s recommendations were also included in this document.

Audit Report No. 2018-15 was IA’s follow-up report and addressed the status of 19 action items in 10 Individual Audit Reports. IA verified that seven (7) of the action items had been implemented and 12 partially implemented; and updated management responses had been obtained on the partially implemented action items. IA had two (2) high risk items in this report related to general IT security at UH-Clear Lake (“UHCL”) and IT security of the UHS Advancement Information System. These action items should be implemented in December 2018 and May 2018, respectively.

Audit Report No. 2018-16 was IA’s Report on Construction and Other Contracts Requiring Board approval. This is a standing report in IA’s Briefing Booklet, similar to their Follow-up Status Report. The objective of this review was to determine whether the major construction and other contracts requiring Board approval had complied with institutional policies and state statutes, particularly the Texas Education Code. This report covered the activity from January 1,
2018 through March 31, 2018. As noted in Appendix I of the report, Internal Audit had performed audit procedures on nine (9) of the projects listed. Listed near the bottom of this Appendix is the solicitation for approximately $140 million for gas and electricity. This solicitation had resulted in substantial savings for the UH System based upon what the University was currently paying. Mr. Guyton asked Mr. McShan to comment further on this issue.

Mr. McShan stated that at the March 8, 2018 Board meeting, the Board had approved entering into a contract to be able to monitor and lock-in, primarily natural gas prices, which is normally the biggest driver of the variable portion of electricity. The University locked-in prices, and the following week, it was projected that we could possibly save up to $8.8 million over the five (5) year period. Annually, the University’s electricity utilities are approximately $23.0 million of which $7.0-$8.0 million of that total was fixed in the delivery costs. The University is projecting savings of up to 40%, which equates to anywhere from a minimum of $4.0 million to up to $6.0 million in just one (1) year due to the simple limitation of the ability to track the markets and lock-in the best rates.

Internal Audit also noted no unusual items or other matters that they considered non-compliant with University policies and procedures or state statutes.

Audit Reports Nos. 2018-17, 2018-18 and 2018-19 were IA reports on Departmental Reviews on the UH University Libraries, the UH College of Technology, and the UHD College of Public Service. Internal Audit noted no matters that they considered to be significant engagement observations. Two (2) of these reports contained Management Action Plans. Mr. Guyton introduced the Dean of the UH Libraries, Lisa German, who was present at the meeting and thanked her for her assistance and work on this clean report.

Mr. Guyton referred back to the Activity Outline and stated that IA had 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 FY2018. Listed in the Special Projects in Progress section were some external audits listed. Internal Audit had recently learned that they had another audit that would start this summer by the US Department of Education: a limited scope audit on the University of Houston’s Federal Financial Aid Programs in the Verification Area.

Mr. Guyton also stated that also included in the report was the Audit Plan Status which indicated the areas that had been completed and the status on the other areas.

Listed in Section 6 was IA’s report on their Quality Assurance Improvement Program which was a requirement of the Institute of Internal Auditors Standards. This report listed some of the things Internal Audit does to help ensure the quality of the services they perform and how they monitor their progress.

In Section 7 of the report was a narrative of the External Assessment Process of the Internal Auditing Activity which IA was required to undergo every three (3) years. In addition to the narrative, this section also contained the biographies of the external team members. Mr. Guyton introduced these team members to the committee, who were present at the meeting as follows:
1. Justin Noble, Texas Tech University System;
2. Pamela Doran, University of South Carolina; and

Mr. Guyton stated that all three (3) individuals were very experienced and well-qualified to perform this review.

Regent Taaffe stated that he had met with the Peer Review Team prior to the meeting and he thanked the members for their assessment and how fortunate the University has been to have such qualified and experienced auditors perform this task.

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

The last item listed on the agenda, Item H, a Report on UH System Support Organizations – University of Houston System. Mr. Guyton stated this item referred to the Compliance Review of the UH System Support Organizations and the UH System Support Organizations Report. The Compliance Review of the UH System Support Organizations indicated the status of the receipt of the required information. The Compliance Review was prepared by UHS Advancement and the accompanying compilation of financial information was prepared by UHS Financial Reporting. The only items that Internal Audit had not received were the IRS Form 990’s for the UH College of Business Foundation and the Houston Public Media Foundation. The target dates of receiving these documents were also noted in the report.

The UHS Support Organizations Report was a compilation of information from audited financial statements, IRS Forms 990, Investment Reports, and other information furnished to the UH System by the Support Organizations. The purpose of this report was to provide information on Support Organizations’ activities and the Board of Regents, and UHS’s responsibilities with respect to the foundations. As explained in the report, the Regents’ fiduciary responsibilities to the UH System, as related to these organizations, was 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 had been spelled out in our agreements with these Support Organizations.

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

At 11:20 a.m., Regent Taaffe moved to Section II listed on the agenda, the Executive Session. Regent Taaffe stated that the committee would go into Executive Session pursuant to the sections of the Texas Government Code listed on page 2 of the committee’s agenda.

Executive Session:

Regent Taaffe reconvened the committee meeting in open session at 11:49 a.m. and stated the Board had met in Executive Session and discussed personnel matters. There was no action taken by the Board in Executive Session.
There being no further business to come before the committee, this meeting was adjourned at 11:50 a.m.

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Others Present:

Renu Khator
Jim McShan
Paula Myrick Short
Dona Cornell
Amr Elnashai
Eloise Dunn Brice
Richard Walker
Mike Johnson
Ira A. Blake
Juan Sánchez Muñoz
Raymond V. Morgan
Stephen Spann
Dan Maxwell
Mike Emery
Nader Ibrahim
Phil Booth
Ju Kim
Joe Brueggman
Marquette Hobbs

Don Guyton
Raymond Bartlett
Vanessa Hernandez
Lindsey Ellis
Karin Livingston
Ray Raulerson
Devi Bala
Pam Muscarello
Usha Mathew
Lisa German
Randy Wong
I-Hsuan Huang
Catherine Patterson
Mark Clarke
Justin Noble
Jon Aldrich
Brian Thomas
Shannon Harrison
Gerry Mathisen

Russ Hoskens
Connie Applebach
Natalie Grecu
Susan Koch
Richard Baker
Ryan Harrison
Mike Rosen
Sabrina Hassumani
Dilani Perera
David Oliver
Pamela Doran
Macie Kelly
David Oliver
Michael Slaten
Richard Cordova
Glen Houston
Matt Castello
Brenda Robles