

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

Thursday, February 18, 2016 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 10:42 a.m. on Thursday, February 18, 2016 at the University of Houston, Student Center Ballroom, Room 210, Second Floor, 4455 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Roger F. Welder, Chair  
Peter K. Taaffe, Vice Chair  
Durga D. Agrawal, Regent  
Paula M. Mendoza, Member  
Tilman J. Fertitta, Ex Officio

Non-Member(s) Present

Spencer D. Armour, III, Regent  
Beth Madison, Regent  
Gerald W. McElvy, Regent  
Welcome W. Wilson, Jr., Regent  
Garrett H. Hughey, Student Regent, Non-voting

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.

Regent Welder stated the first order of business for the committee was the approval of the minutes from the August 20, 2015 and the November 19, 2015, Audit and Compliance Committee meetings.

**Action Items:**

1. Approval of Minutes – Item B

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

- August 20, 2015, Audit and Compliance Committee Meeting
- November 19, 2015, Audit and Compliance Committee Meeting

Following the approval of the minutes, Regent Welder stated the committee would be presented eight (8) agenda items – one (1) action item requiring committee and board approval and seven (7) items for information only, and asked Mr. Don Guyton, Chief Audit Executive to present these items to the committee.

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AGENDA ITEMS

Mr. Guyton stated that there were no open points from the November 19, 2015, Audit and Compliance Committee meeting.

The first agenda item presented by Mr. Guyton was Item-C, a Report on Board of Regents Policy 55.01, Contracts – University of Houston System, Audit-4C. Mr. Guyton stated this item referred to suggested changes to Board of Regents Policy 55.01, Contracts. These changes to the policy were in paragraph 55.01.4, Reporting to the Board. With the implementation of Senate Bill 20 on procurement, the Board is now required to approve all contracts over \$1 million. As a result, this paragraph has been changed to report actual expenditures rather than the amounts of the contracts awarded. These revisions to this policy were discussed in the November 19, 2015 meeting when Internal Audit (“IA”) presented the last annual procurement report required by this policy. The changes to this policy were brought to the Board of Regents for final approval.

On motion of Regent Taaffe, seconded by Regent Mendoza, and by a unanimous vote of the members in attendance, the Report on Board of Regents Policy 55.01 – Contracts – UH System was approved.

Following the approval of this action item, Regent Welder called for a motion to place this action item that was presented to the committee and requires full Board approval on the Board of Regents’ Consent Docket Agenda at the Board of Regents meeting scheduled for later today, Thursday, February 18, 2016.

On motion of Regent Taaffe, seconded by Regent Mendoza, and by a unanimous vote of the committee members present, the following action item will be placed on the Board of Regents’ Consent Docket Agenda for final approval at the February 18, 2016 Board meeting as listed below:

1. Report on Board of Regents Policy 55.01, Contracts – University of Houston System.

Mr. Guyton moved to the next agenda item, Item D, a Report on Creating a System Police Operation for Efficiencies and Standardization – University of Houston System. This report referred to a proposal on creating a System Police Operation for Efficiencies and Standardization. During the past few years, Police Operations have been scrutinized for their practices in dealing with various situations. Many of these situations deal with use of force and some higher education institutions have had to deal with the consequences of their institutions’ policies in this area. At the University of Houston System our policies at our Police departments are inconsistent in this area and other areas. What is an acceptable practice at one of our institutions may not be at another one of our institutions, stated Mr. Guyton. The risk to our System should be lowered by having consistent policies while striving to achieve best practices. It is Mr. Guyton’s belief that this can best be achieved by having a System Police Operation. A System Police Operation offers the UH System the best opportunity to economize our resources by using common systems for dispatching, records management, evidence management and property management. The areas that should be standardized are training, vehicle fleets and

uniforms. When Internal Audit issued their Audit Report on Police Operations in 2003, they had hoped that having a System policy on Police Operations would be the start of a Standardized Management System of Police Resources but this has not been the case.

Mr. Guyton stated that this report was presented to the Board for information as a preliminary proposal for a System Police Operation. Management will be collaborating with the Presidents, Chief Financial Officers and Police Chiefs over the next two (2) months and present a final proposal at the May committee meeting.

Mr. Guyton asked Ms. Dona Cornell, Vice Chancellor for Legal Affairs and General Counsel to also comment on this issue. Below is a brief summary of her remarks.

Ms. Cornell stated that this proposal has been in discussion for quite some time. From a Legal standpoint, looking across the country at the large loss reports, Ms. Cornell views the Police Department as a high risk area; an area that the University needs to be sure there is some standardization between the different campuses. If we do not have more standardization the concern is that we will have more exposure. She is also aware of the need for a smoother personnel movement between departments which could be possible with one commissioning system. The Department of Education recently reviewed the issue of Clery compliance and whether or not the University has the processes in place for each of the System campuses in order to make certain the UH System has Clery compliance. It is important that we also receive input from each System campus in order to have autonomy stated Ms. Cornell. A brief discussion followed.

Regent Welder stated that from an Audit perspective, this proposal has been considered for a long period of time. He was supportive of the concept of implementing this change; and asked if there was a timeline and/or strategy for implementation. Ms. Cornell stated it would depend on the different campuses and having autonomy. Mr. Guyton also commented that it was imperative the University be consistent with the Department of Education' rules on Clery reporting.

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

Mr. Guyton presented Item E, a Report on Emergency Management /Safety and Security Audit – University of Houston System. Mr. Guyton stated this item referred to the Report on the Emergency Management / Safety and Security Audit – University of Houston System. This report is required every three (3) years by the Texas Education Code § 51.217. This is the second time this report has been presented to the Board of Regents and it will be transmitted to the Governor's Office of Emergency Management. Mr. Guyton introduced Ms. Kelly Boysen, UH Director of Emergency Management who presented the Board a powerpoint presentation. Below is a brief summary of Ms. Boysen's remarks.

Ms. Boysen stated that Internal Audit had requested her area coordinate and facilitate an Emergency Management / Safety and Security Audit which was conducted in the Fall of 2015.

This audit, required by Texas Education Code § 51.217, must be conducted every (3) years; and any findings reported to the Board of Regents and the Division of Emergency Management of the Office of the Governor.

- Criteria and the methodology for the audit were outlined.
- An overview of the audit findings were discussed.
  - (a) There was significant improvement made at all components in the past three (3) years;
  - (b) Recent requirements from the State Office of Risk Management regarding continuity planning have been a challenge for several campuses to implement; and
  - (c) Staffing also continues to be a challenge.
- The contents of the Emergency Management/Safety and Security Audit were addressed and the Multi-Hazard Emergency Operations Plan summarized.

For reference, a complete copy of Ms. Boysen's presentation may be found at the following link: <https://v3.boardbook.org/Viewer/itemdownload.aspx?ik=38296987>.

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

The next item presented by Mr. Guyton was Item F, a Report on Board of Regents' Policies on Internal Audit, Institutional Compliance and Identity Theft Prevention – University of Houston System. Mr. Guyton stated that the Audit Committee Planner, Item No. 3.03 requires an annual review of the Board of Regents' policies on Internal Audit and Institutional Compliance. There were no suggested changes to the Institutional Compliance and Identity Theft Prevention policies since they were reviewed by the Audit and Compliance Committee on February 19, 2015.

There was one (1) change to the Internal Audit Policy approved by the Audit and Compliance Committee on August 20, 2015, and at this time, there were no suggested changes to this policy. Mr. Guyton also pointed out a couple of things about the Board of Regents' Internal Audit Policy 41.01 which serves as the Internal Audit Charter; and it establishes the framework for the Internal Audit function. Paragraph 41.01.2.C. of this policy requires that the Internal Auditing Department adhere to the Standards for the Professional Practice of Internal Auditing and the IIA Code of Ethics. Internal Auditing Standard 1010 requires the Chief Audit Executive to discuss the definition of Internal Auditing, the IIA Code of Ethics and the Standards with the Board and senior management. Paragraph 41.01.1.C of this policy is the definition of Internal Auditing and it states: "Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve the System's operations. It helps the System accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

The Code of Ethics establishes the four (4) principles that Internal Auditors are expected to apply and uphold: Integrity, Objectivity, Confidentiality and Competency. The Code of Ethics also contains 12 specific rules of conduct for these principles. Each year all Audit staff, including the Chief Audit Executive, reads the Code of Ethics and signs a statement acknowledging their responsibilities to adhere to the Code of Ethics. The IIA Standards are comprised of Attribute Standards and Performance Standards.

The Attribute Standards are:

1. Purpose, Authority and Responsibility;
2. Independence and Objectivity;
3. Impairment to Independence and Objectivity;
4. Proficiency and Due Professional Care; and
5. Quality Assurance and Improvement Program.

The Performance Standards are:

1. Managing the Internal Audit Activity;
2. Nature of Work;
3. Engagement Planning;
4. Performing the Engagement;
5. Communicating the Acceptance of Risks;
6. Monitoring Progress; and
7. Resolution of Senior Management's Acceptance of Risks.

IIA Standard 1310, Requirements for the Quality Assurance Improvement Program, requires the program to include both internal and external assessments. Every three (3) years the Internal Auditing Department undergoes both an internal assessment and an external peer review to determine whether the department adheres to these Standards. The last Peer Review Report was issued in August 2015 and was on the agenda for the November 19, 2015, Audit and Compliance Committee meeting.

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

Item G, a Report on External Audit Reports – University of Houston System was the next information item presented to the committee. Mr. Guyton stated that this report referred to the following five (5) External Audit Reports for FY 2015:

1. Independent CPA's Report on the Application of Agree-Upon Procedures of the Athletics Department;
2. The Audit Report and Financial Statements of the Charter School;
3. The Audit Report and Financial Statements of the UHS Endowment Fund;
4. The UH-Downtown Financial Statements and Independent Accountant's Report for their SACS Accreditation; and
5. The Agreed-Upon Procedures Report for UH's Cancer Prevention and Research Institute of Texas Grant Awards for FY2015.

The other supplemental information had been excluded from the Endowment Fund Financial Statements. This information included the Schedule of Noncurrent Investments and the Schedule of Changes in Net Assets by Endowment. These schedules are on file in the Board of Regents' office with the complete set of financial statements.

The financial statements of the Charter School were approved by the Charter School Board at its meeting held on January 19, 2016. This year there were two (2) CPA firms engaged to prepare reports for these engagements: Belt, Harris, Pechacek and BKD. Belt, Harris, Pechacek conducted the engagements for Athletics and the Charter School and BKD conducted the

engagements for the Endowments and the UH-Downtown SACS review. Biographies were provided to the committee of the engagement partners who were in attendance at the meeting and provided brief presentations on their reports. Mr. Guyton introduced Mr. Robert Belt of Belt, Harris & Pechacek and Mr. Brian Krueger and Mr. Greg Sissel of BKD, all of whom presented a brief summary of their reports. Numerous other individuals were available to answer any questions posed by the committee members.

Mr. Robert Belt from Belt, Harris & Pechacek presented his reports and began with the National Collegiate Athletics Agreed-Upon Procedures for FY2015. These procedures are required by the NCAA, specifically to the Athletics Program, and he was very pleased to announce that there were no significant findings as a result of their review. They reviewed approximately 36 areas that were required by the NCAA; and generally paraphrasing their findings, everything was well-managed and consistent with a well-managed Athletics Program.

Mr. Belt summarized his next report which was on the Audit Report and Financial Statements of the UH Charter School FY2015. The Charter School is a very unique element within the University and he pointed out that there were approximately 3,300 school districts in the State of Texas; approximately 600 Charter Schools; and seven (7) Charter Schools that are sponsored by universities. It is a very unique type of entity. This CPA firm audited five (5) of the seven (7) sponsored Charter Schools in the State of Texas. These Charter Schools serve a very important role in connection with the University's Education Department in providing a test-bed in order to go out and implement new educational programs. Mr. Belt also pointed out that it was a unqualified opinion of their financial statements, with the highest level of assurance they could provide, that all of the disclosures required by the General Acceptance of Accounting Principles have been included and that the financial statements were correct; and that they did not have any significant management-type findings with the Charter School Program.

Mr. Brian Krueger and Mr. Greg Sissel of BKD presented their reports to the committee. Mr. Krueger stated they had brief comments on the three (3) engagements they had completed. The UH System Endowment Fund Audit, the UH-Downtown Review Procedures, and the Agreed-Upon Procedures for the UH Cancer Prevention and Research Institute of Texas Grant.

The UH System Endowment Fund was a full audit completed under Generally Accepted Auditing Standards. The firm did not have any issues with the accounting principles or any of the procedures that the Endowment Fund undertakes as far as their accounting processes. Similar to prior years, they did not have any audit adjustments, no disagreements with management or any difficulties while performing their audit. An unqualified audit opinion of the financial statements was issued as has been done in the past several years; and he thanked Mr. Bartlett, Ms. Puryear and their staffs for their assistance and always being prepared.

Mr. Krueger addressed the next engagement they performed, the UH-Downtown Review Procedures. This was a review much less in scope than an audit. They are not trying to give an opinion on the financial statements, but the objective was to say that they were fairly presented in accordance with Generally Accepted Accounting Principles. They performed inquiry, observation and analytical procedures only on what they reviewed. The Review Report stated that they were not aware of any material modifications that should be made to the financial

statements nor for them to be in conformity with the United States GAAP. They did have discussions with management on a few audit adjustment issues. Some of those discussions centered around the GASB 68, the new pension standard. Mr. Krueger thanked Mr. George Anderson and his staff at UH-Downtown for their assistance.

The third engagement addressed by Mr. Krueger was for the UH Cancer Prevention and Research Institute of Texas Grant Agreed-Upon Procedures. These procedures were provided to them by the granting agency to make certain they were in compliance with the terms of the grant. There were no significant findings from this engagement but only a few minor things that were addressed with management of which they did agree with.

Following Mr. Krueger's presentation, Mr. Guyton stated that representatives of the Charter School, Patricia Pacquin, Interim Principal; Jeff Collier, Associate Director in the Athletics Department; Raymond Bartlett, Sr. Associate VC/VP for Finance; David Ellis, Executive Director for Financial Reporting; David Bradley, Vice President for Administration and Finance at UH; and Beverly Rymer, Executive Director, Contracts and Grants were present at the meeting should anyone have any additional questions.

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

Mr. Guyton moved to the next item on the agenda, Item H, a Report on Institutional Compliance Status Report for the Three Months Ended December 31, 2015 – University of Houston System. Mr. Guyton stated this report referred to the Institutional Compliance Status Report for the Three Months ended December 31, 2015. This report lists activities which include risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports. The remainder of the Institutional Compliance Status Report summarized the information provided for each institution for their compliance functions. One item that Mr. Guyton wanted to bring to the attention of the committee was the last comment in the UH section on Environmental Health & Life Safety. This comment referred to the Lab Management System being populated and the assessment of resources to address the increasing addition of Research labs related to the addition of floor space of the health-related activities and other Research buildouts. This system should help this group manage the resources needed to comply with the various regulatory agencies for these different types of activities performed in these labs. It should also help assess resources needed for compliance.

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

The next item listed on the agenda for discussion was Item I, a Report regarding the Internal Audit Briefing Booklet including Audit Activity Outline – University of Houston System. Mr. Guyton stated this report referred to the Internal Audit Briefing Booklet. The Briefing Booklet also contained an activity outline and from this outline Internal Audit ("IA") prepared six (6) Internal Audit Reports since the November 19, 2015, Audit and Compliance Committee meeting. The executive summaries of these reports were in the Briefing Booklet as well as the Individual Reports. These reports addressed areas included in the Board-approved Audit Plan and included Departmental Reviews of the UH College of Optometry and the UH-Clear Lake ("UHCL") School of Business, IA's Annual Football Attendance Certification, a Report on UH-

Downtown (“UHD”) Information Standards and IA Reports on Construction and Other Contracts requiring Board approval and follow-up activity. These reports will be submitted to the Governor’s Office of Budget and Planning, the Legislative Budget Board, the Sunset Advisory Committee and the State Auditor, as required by the Texas Government Code. IA reports on the Departmental Reviews contained Management Action Plans and were included in the Briefing Booklet. An overview of all of IA’s recommendations were also included in these reports.

Audit Report No. 2016-13 was IA’s follow-up report and addressed the status of 42 action items in 19 Individual Audit Reports. IA verified that 25 of the action items have been implemented, 15 partially implemented and two (2) not implemented. Updated management responses were obtained on the partially implemented and not implemented action items. There were two (2) high risk items in this report related to UHD policies for receivable reconciliations and write-offs and they are supposed to be implemented by March 31, 2016.

Audit Report No. 2016-14 was IA’s report on Construction and Other Contracts Requiring BOR approval. This is a standing report in IA’s Briefing Booklet, similar to their follow-up Status Report. The objective of IA’s review was to determine whether the UH System was complying with its policies and procedures and State statutes, particularly the Texas Education Code in selecting its contractors for its major construction projects and other contracts requiring BOR approval. This report covered the activity from October 1, 2015 through December 31, 2015. Appendix 1 of this report indicated the scope of the Internal Audit Review. As noted in this Appendix, Internal Audit had performed audit procedures on 11 of the projects listed. The dates listed on this Appendix in red were dates added to the Appendix since the last report was issued in November 2015.

Audit Report Nos. AR2016-15 and AR2016-16 were Departmental Reviews of the UHCL School of Business and the UH College of Optometry. IA noted no significant engagement observations in these reports.

Audit Report No. 2016-17 was IA’s report on UHD Information Security Standards. Internal Audit did find that UHD fully complied with most of the State-required standards. These reviews are required every two (2) years by statute.

Audit Report No. 2016-18 was IA’s Annual Football Attendance Audit which is required by the NCAA. As noted on page 2 of this report, a table listing the paid attendance for each home game was shown. This year’s average attendance was 30,147 versus last year’s average attendance of 24,000.

Mr. Guyton referred back the Activity Outline and as noted on Items 2, 3 and 4 of the outline that 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 2016. IA has various special projects in progress. FEMA is still conducting audits of the University of Houston’s reimbursements for Hurricane Ike. The external audit of Public Media will be completed and placed on the agenda for the May 19, 2016, Audit and Compliance Committee meeting; and

the State Comptroller has notified IA that UH System Administration will undergo a Post-Payment Audit. These audits typically occur every three (3) to (5) years.

The final item listed in this section was the external IT Risk Assessment. The auditors will complete their fieldwork this month and IA should have a good document to prioritize these audits. Regent Welder commented that this was a good time to have this audit done and the group that has been charged with doing this audit has a lot of expertise and has completed them for a number of universities. This audit will give the University some good insight into our IT security.

The Audit Plan Status was also noted and the footnotes indicated the status on the other audit areas which are scheduled to take place in 2016.

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

Item J, the Report on UHS Financial Statements Certifications – UH System was the next item presented by Mr. Guyton and referred to Certification of Annual Financial Statements. The Audit Committee Planner, Item No. 3.13, requires that the UH System Chancellor and UH System Chief Financial Officer certify the annual financial statements for the UH System as a whole, and that each component President and Chief Financial Officer certify the annual financial statements for their respective component institution. The agenda contains these certifications. Prior to the Chancellor and Vice Chancellor for Administration and Finance signing the certifications, the following steps were taken:

1. UHCL, UHD, and UHV Chief Accounting Officers, Chief Financial Officers, and Presidents certified that the financial reports for their campuses were true and correct to the best of their knowledge;
2. UH and UHSA administrators and unit heads representing 136 departments completed the FY2015 Department Fraud Risk Survey, which included questions about verifying cost center transactions, reporting instances of fraud and non-compliance, and other internal controls. According to the survey results, internal controls were adequate to ensure that the financial transactions created for FY2015 by UH/UHSA departments were true and correct; and
3. Various responsible persons, including the CFO and Chancellor signed the Certification Letter for UH, UHSA, and UH System Consolidated based on:
  - (a) Department Surveys, which indicate internal controls were adequate within UH and UHSA departments to ensure correct financial transactions;
  - (b) Certifications signed by UHCL, UHD, and UHV representatives; and
  - (c) Their knowledge and review of the FY2015 Annual Financial Report for UH, UHSA, and UH System Consolidated.

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

At 11:43 a.m., Chair of the Audit and Compliance Committee, Regent Welder, announced that pursuant to Subchapter D of Chapter 551 of the Texas Government Code, which allows governing boards to meet in closed session, Regent Welder stated the Board would convene in Executive Session.

**Executive Session**

Chair of the Committee, Regent Welder reconvened the meeting in open session at 12:00 noon and stated that the Board had met in Executive Session and discussed personnel issues. 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 12:02 p.m.

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**Others Present:**

Renu Khator	Don Guyton	Russ Hoskens
Jim McShan	Sandra Dahlke	David Bradley
Paula Myrick Short	Nicholas Fox	Jeffrey Cass
Dona Cornell	Cathy Horn	Kevin Kemp
Richie Hunter	Ed Hugetz	Cesaer Moore
Jason Smith	Jeff Collier	Valerie Coleman-Ferguson
Eloise Dunn Stuhr	David Oliver	David Ellis
Richard Walker	Raymond Bartlett	Dana Rook
Mike Johnson	Greg Sissel	Bruce Krueger
Raymond V. Morgan	Robert Belt	Patricia Paquin
Michael A. Olivas	Dean Gladden	Andrew Davis
William Staples	Rex Koontz	Bill Monroe
David Bertman	Nicholas Fox	Ellen Happe Phillips
Gwendolyn Goffe	Karen Farber	Fleurette Fernando
Sixto Wagan	Claudia Schmuckli	Mark Clarke
Abner Fletcher	Wayne Beran	Matthew Castello
Mike Glisson	Shannon Harrison	Deidre Garcia
Kelly Boysen	Chris Stanich	Steve Wallace
Dan Wells	Don Price	Jesse Pisors
Owen Fassett	Jon Aldrich	Phil Booth
Sabrina Hassunami	Joe Brueggman	Dia Martinez
Thomas Tillotson	Marquette Hobbs	Brenda Robles
Gerry Mathisen		