

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

Thursday, February 23, 2017 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 10:12 a.m. on Thursday, February 23, 2017 at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

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  
Joshua A. Freed, Student Regent, Non-Voting

Member(s) Absent:

Roger F. Welder, Chair

In accordance with a notice being timely posted with the Secretary of State and there being a quorum present, in the absence of the Chair of the Committee, Roger F. Welder, Vice Chair of the Committee, Peter K. Taaffe called the meeting to order at 10:12 a.m. He stated the committee would be presented five (5) agenda items, all of which were for information only.

At 10:15 a.m., Regent Taaffe stated he was taking the agenda out of order, and for the first order of business, he moved to Section IV listed on the agenda, the approval of the minutes.

**Action Items:**

1. Approval of Minutes – Item A

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

- August 25, 2016, Audit and Compliance Committee Meeting
- December 1, 2016, Audit and Compliance Committee Meeting

Following the approval of the minutes, Regent Taaffe introduced Mr. Don Guyton, Chief Audit Executive, who was asked to present the remaining agenda items; and if anyone had any questions during his presentation of the items to please let him know.

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AGENDA ITEMS

Mr. Guyton stated there were no open points from the December 1, 2016 committee meeting.

The first agenda item presented by Mr. Guyton was Item-B, a Report on Board of Regents' Policies on Internal Audit, Institutional Compliance, and Identity Theft Prevention – University of Houston System. Mr. Guyton stated this item referred to the Board of Regents' Internal Audit, Institutional Compliance and Identity Theft Program Policies. 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 Internal Audit and Identity Theft Prevention Program Policies since they were reviewed by the Audit and Compliance Committee on February 18, 2016. There was only one (1) change to the Institutional Compliance Policy approved by the Audit and Compliance Committee and the Board of Regents on August 25, 2016. These were made in order to comply with the Legislative Session Senate Bill 20.

Mr. Guyton made mention of a couple of things regarding the Board of Regents' Internal Audit Policy 41.01 as follows:

1. This policy 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 the Internal Auditing Department (“IA”) to 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.
2. 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.”
3. The Code of Ethics establishes the four (4) principles that Internal Auditors were 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 Mr. Guyton, read the Code of Ethics and sign a statement acknowledging their responsibilities to adhere to the Code of Ethics.
4. The IIA Standards are comprised of Attribute Standards and Performance Standards. The Attribute Standards are:
  - (a) Purpose, Authority and Responsibility;
  - (b) Independence and Objectivity;
  - (c) Impairment to Independence and Objectivity;
  - (d) Proficiency and Due Professional Care; and
  - (e) Quality Assurance and Improvement Program.

5. The Performance Standards are:
  - (a) Managing the Internal Audit Activity;
  - (b) Nature of the Work;
  - (c) Engagement Planning;
  - (d) Performing the Engagement;
  - (e) Communicating the Acceptance of Risks;
  - (f) Monitoring Progress; and
  - (g) Resolution of Senior Management's Acceptance of Risks.

Mr. Guyton also addressed IIA Standard 1310, Requirements for the Quality Assurance Improvement Program, which requires the program to include both internal and external assessments. Every three (3) years, the IA 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 no committee action was required.

Mr. Guyton moved to Item C, Report on External Audit Reports – University of Houston System which referred to the following five (5) External Audit Reports for FY2016: the Independent CPA's Report on the Application of Agreed-upon Procedures of the Athletics Department; the Audit Report and Financial Statements of the UH Charter School; the Audit Report and Financial Statements of the UH System Endowment Fund; and the Agreed-upon Procedures Report for UH's Cancer Prevention and Research Institute of Texas Grant Awards. The UH Public Media Financial Statements and Independent Accountant's Report has not been received; therefore, this was tabled until the May 18, 2017, Audit and Compliance Committee meeting. The other supplemental information has 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 UH Charter School were approved by the Charter School Board at their meeting held on January 17, 2017. This year IA had 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 Endowments, Houston Public Media, and the UH Cancer Prevention and Research Institute of Texas Grant Awards. The committee was provided with biographies of the engagement partners who were present at the meeting and provided brief presentations on their reports.

Mr. Guyton introduced Mr. Robert Belt of Belt Harris Pechack, to give his reports. Below is a brief summary of his remarks:

- Mr. Belt stated it was an honor to be present at the meeting and to give his reports.
- The first report was on the National Collegiate Athletic Association's (NCAA) Agreed-upon Audit Procedures. The NCAA puts out these procedures and requires the university and the auditors to follow them.

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- Belt Harris Pechack has issued an Agreed-upon Procedures Report which covers 35 different procedures prescribed by the NCAA. There were no findings in relation to the procedures performed. Management did a great job in supplying the information the firm required and it was considered a very successful report.
- The second report was on the Charter School. Belt Harris Pechack had issued an unmodified report, which is the highest level of assurance they could provide to the Board that all of the disclosures required by the Generally Accepting Accounting Principles have been included and the financial statements are materially correct.
- They had previously met with the Oversight Board for the Charter School and reviewed this Audit Report in quite detail.
- There was one (1) unique matter that was brought to the attention of the Board regarding the Charter School. There are approximately 700 charter schools in the State of Texas and approximately seven (7) of those are imbedded within University organizations. The way the Texas Education Agency (TEA) looks at charter schools, is that they are normally on their own; that they are normally a nonprofit organization; and that they normally have very limited funds. Therefore, they have a very strict way of looking at charter schools in that rules that they are following do not apply well to university schools. They have a first-rating indicator which is basically a “pass” or “fail” type-scenario where they look at the financial resources available from that charter school; and based upon that grading system, the University would fail on that particular item as we currently have a deficit position. However, the University is the “big brother” and has the financial resources to cover the amount which is a very minor amount in terms of the scope of the University as a whole. This is the way the TEA is currently looking at it. All of the universities charter schools are working together trying to get new legislation passed that would address this issue and that work is currently underway.

This concluded Mr. Belt’s remarks of the two (2) reports he presented to the committee.

Mr. Guyton thanked Mr. Belt for his summary and then asked Mr. Brian Krueger of BKD to give his reports. Below is a brief summary of his remarks.

- Mr. Krueger thanked the committee for the opportunity to present his reports.
- The first report addressed was for the Audit Report and Financial Statements for the UH System Endowment Fund. An unmodified audit opinion was also issued which, as noted, is the highest level of assurance they could provide to the Board. The financial statements for the Endowment Fund reflect total assets of approximately \$575 million that the Endowment Fund manages as of August 31, 2016. It was a little higher than the previous year so there has been some growth, stated Mr. Krueger.
- The significant estimates in the financial statements is good to remember that the alternative investments, the private equity things, were definitely estimates in the financials that management reviews and values in accordance with the new standards. There were no audit adjustments; and BKD received great assistance from the Treasury staff and he thanked them for their help.
- It was also required to implement the new GASB72 Audit Standard on Fair Value which they did so appropriately with all of the appropriate disclosures.
- Mr. Krueger addressed his next report, the UH Cancer Prevention and Research Institute of Texas Grant and stated that this report was also an agreed-upon procedures

engagement. They were provided with the steps they were required to test by the grantor. There were approximately 26 procedures that required various inquiry observations re-performance in these steps; and BKD also found no exceptions during their testing of this grant.

Mr. Guyton stated that representatives from Athletics and the UH Charter School were present at the meeting should any regent have any questions regarding these reports.

Regent Taaffe stated there was one line item in Athletics where the contributions from the NCAA were down 50% below what was budgeted. A management response was made but Regent Taaffe stated he did not know if that particular reason was noted as to why the NCAA's distribution was so much lower. Mr. Guyton asked Jeff Collier, Associate Athletic Director, to come forward and address this issue.

Mr. Collier stated that based on past years, this year the NCAA had asked the departments to make more lines of the revenues. The media rights were historically included in the NCAA distribution as a conference and NCAA distribution line. So the revenue received from the American Athletic Conference ("AAC") was historically included in the FY2015 report; and in the FY2016 report it was broken out into the 1.5 and the 2.5 lines. These two figures combined had previously represented that revenue line.

Regent Wilson, Jr. asked that in advance of any legislative modifications, was there any recommended restructuring or repositioning that the university should look into for the Charter School without a legislative cure as to how we are reviewed or graded? Mr. Guyton had no suggestions. Mr. Belt, from Belt Harris Pechack, stated it will be addressed when legislation is done.

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

Mr. Guyton moved to Item D, a Report on Institutional Compliance Status Report for the Three Months Ended December 31, 2016 – University of Houston System. Mr. Guyton stated this report referred to the Institutional Compliance Status Report for the three months ended December 31, 2016. This report lists activities which included 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.

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

The next item addressed by Mr. Guyton was Item E, the Report regarding the Internal Audit Briefing Booklet including Audit Activity Outline – University of Houston System. This item referred to the Internal Audit Briefing Booklet. The Briefing Booklet also contained an activity outline and from this outline Internal Audit ("IA") prepared 10 Internal Audit Reports since the December 1, 2016, Audit and Compliance Committee meeting. The Executive Summaries of these reports, as well as the Individual Reports, were listed in the Briefing Booklet. These reports addressed areas included in the Board-approved Audit Plan and included Departmental

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Reviews of the UH University Marketing, Communication and Media Relations and the UH-Downtown (UHD) Divisions of Administration and Finance, Academic and Student Affairs, and the University College. Reports on IA's reviews of the Endowment were prepared for the UH College of Liberal Arts and Social Sciences and UH College of the Arts. IA also prepared a follow-up report on UH Center for Advanced Computing and Data Systems and a Report on the UH's Annual Football Attendance Certification. IA's follow-up Status Report, and their Report on Construction and Other Contracts Requiring Board Approval and follow-up activity were also included in the materials. 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's Office, as required by the Texas Government Code. IA's reports on the Departmental Reviews contained Management Action Plans and were included in the Briefing Booklet, along with an overview of all of IA's recommendations.

Audit Report No. 2017-14 was IA's follow-up report and addressed the status of 36 action items in 15 Individual Audit Reports. IA verified that 14 of the action items had been implemented and 22 were partially implemented. Updated management responses were obtained on the partially implemented and not implemented action items. IA had one (1) high risk item in this report related to the reporting structure of the Information Security Officer at UH-Clear Lake (UHCL) and this item has been completed.

Audit Report No. 2017-15 was IA's report on Construction and Other Contracts Requiring Board of Regents' (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 University of Houston System (UHS) 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, 2016 through December 31, 2016. In Appendix 1 of this report, it indicated the scope of the Internal Audit Review; and that Internal Audit had performed audit procedures on seven (7) of the projects listed. The dates listed in the appendix in red were dates added to this section since the last report was issued in December 2016. IA noted no unusual items or other matters that they considered non-compliant with university policies and procedures or State statutes.

Audit Report No. 2017-17 through Audit Report No. 2017-20 were Departmental Reviews of the UH University Marketing, Communication and Media Relations and the UHD Divisions of Administration and Finance, Academic and Student Affairs, and University College. IA noted no significant engagement observations in these reports.

Audit Report No. 2017-16 and Audit Report No. 2017-22 were IA reports on the Endowments for the UH College of Liberal Arts and Social Sciences and the UH College of the Arts. Internal Audit noted some opportunities for improvement in the management of certain endowments in these colleges; and management was addressing these areas.

Audit Report No. 2017-23 was IA's Annual Football Attendance Audit which was required by the NCAA. On page 2 of the report, a table listing the paid attendance for each home game was noted. This year's average attendance was 34,011 (last year's average attendance was 30,147).

Mr. Guyton referred back to the Activity Outline and as noted on Items 2, 3 and 4 of the Outline 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 2017.

IA also has various Special Projects in Progress. FEMA is still conducting audits of UH's reimbursements for Hurricane Ike. IA is still awaiting the final report from the US Department of Education on the UH Title IV Program Review; and the State Auditor's Office has completed their review of UH Financial Aid for FY2016 and the results should be included in their Statewide Report later this month.

The Audit Plan Status was also noted and the footnotes indicated the status on the other audit areas.

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

The last information item addressed by Mr. Guyton was Item F, a Report on UHS Financial Statements Certifications – University of Houston System. Mr. Guyton stated this item referred to the Certification of Annual Financial Statements for the University of Houston System (UHS). The Audit Committee Planner, Item No. 3.13, requires that the UHS Chancellor and UHS Chief Financial Officer certify the Annual Financial Statements for the UHS as a whole, and that each component President and Chief Financial Officer certify the Annual Financial Statements for their respective component institution. The agenda contained these certifications. Prior to the Chancellor and Senior Vice Chancellor for Administration and Finance signing these 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 UHS Administration (UHSA) administrators and unit heads representing 131 departments completed the FY2016 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 FY2016 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 UHS Consolidated based on the following:
  - (a.) Department surveys, which indicated 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 FY2016 Annual Financial Report for UH, UHSA, and UHS Consolidated.

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

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Following the presentation of this item, Regent Taaffe mentioned that he had reviewed all of the audits and stated that where there were aberrations, they appeared to be properly addressed, and did Mr. Guyton feel comfortable with that. Mr. Guyton's response was that he did.

Regent Taaffe inquired about an audit that had been completed on the College of the Arts Endowment. He asked Mr. Guyton to please comment on this particular audit and his level of concern. Mr. Guyton stated there were two (2) endowments that were running deficit balances in their income recipient accounts. Mr. Guyton explained that this meant that when the endowment income is transferred each year to those recipient accounts where they make the expenditures that they spend more funds than they have available. These funds are primarily used for scholarships. There were two (2) rather large endowments; and it was noted that they needed to manage their cash flow in those accounts for those scholarships; in other words, if they are making commitments to students, many of these are high dollar scholarships; therefore, they cannot be awarding more than what they have. A brief discussion followed.

At 10:45 a.m., Regent Taaffe stated he was returning to Section II listed on the agenda, the Executive Session and that the committee would go into Executive Session pursuant to the sections of the Texas Government Code listed on page 1 of the committee's agenda.

**Executive Session:**

Vice Chair of the Committee, Regent Taaffe reconvened the meeting in open session at 12:38 p.m. and stated the Board had met in Executive Session and discussed legal 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 12:38 p.m.

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**Others Present:**

Renu Khator	Don Guyton	Russ Hoskens
Jim McShan	Sandra Dahlke	Raymond Bartlett
Paula Myrick Short	Ruth Corrigeux	Chris Stanich
Dona Cornell	Macie Kelly	Michael Britt
Lisa Holdeman	Devonte Hilo	Sabrina Hassumani
Ramanan Krishnamoorti	Claire Andersen	Pam Muscarello
Jason Smith	Mike Glisson	Glen Houston
Eloise Dunn Brice	Jasmine Davis	Greg Sissel
Richard Walker	Laurie Ruiz	David Bradley
Jason Smith	Mike Glisson	Cindy Mejia
Mike Johnson	Ed Hugetz	Matt Castello
Raymond V. Morgan	Robert Belt	Ashley Ross
Michael A. Olivas	David Ellis	Brian Krueger
William Staples	Jane Ottinger	Laura Ham

Others Present (cont'd):

Iggy Harrison  
Jon Aldrich  
Phil Booth  
Marquette Hobbs

Jeff Collier  
David Oliver  
Brian Thomas  
Gerry Mathisen

Beverly Rymer  
Joe Brueggman  
Brenda Robles