

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

Thursday, May 19, 2016 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 10:50 a.m. on Thursday, May 19, 2016 at the University of Houston-Victoria, University North, Multi-Purpose Room, 3007 N. Ben Wilson St., Victoria, 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

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 February 18, 2016, Audit and Compliance Committee meeting.

Action Items:

1. Approval of Minutes – Item B

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

- February 18, 2016, Audit and Compliance Committee Meeting

Following the approval of the minutes, Regent Welder stated the committee would be presented six (6) agenda items – one (1) action item requiring committee and board approval and the remaining five (5) items for information only, and asked Mr. Don Guyton, Chief Audit Executive to present these items to the committee.

AGENDA ITEMS

Mr. Guyton stated that there were three (3) open points from the February 18, 2016, Audit and Compliance Committee meeting.

1. Add Emergency Management Audit Report action items to Internal Audit follow-up database – this has been completed;
2. Modify the Contract Awards Report to cut down on clutter on Appendix 1 – this has been completed; and
3. Management will discuss centralized police operations and include an assessment of physical building security in these discussions. An IT Audit Risk Assessment was performed by external auditors and an assessment of the security on all of the electronic security for the buildings by these external IT auditors.

The first agenda item presented by Mr. Guyton was Item-C, a System Police Operation for Efficiencies and Standardization – Report Update and Proposed Board Policy – University of Houston System - Audit-4C. Mr. Guyton stated this item was a report on System Police Operations for efficiency and effectiveness and a proposed Board policy for Public Safety. It requires a system-wide police operation under a single System police leader. The proposed Board policy is brief and it was stated as follows:

“The Chancellor shall establish and maintain a system-wide police operation under the direction of a single UHS police authority to help ensure the public safety of all students, faculty, staff and visitors for the University of Houston System.”

Mr. Guyton stated that the purpose of this policy was to create a system, single authority to make certain we have consistent police policies among all entities and it was felt that a Board policy was the only way to get it accomplished effectively.

Regent Welder stated that the proposed policy was straightforward and has been in discussion for quite a while. Regent Welder called upon each of the System presidents for their thoughts on the subject. Mr. Guyton stated the relative size of the police operations at each of the UHS institutions were as follows:

1. University of Houston - There are approximately 60 police officers, 130 security personnel, and 20 support staff;
2. University of Houston-Downtown – There are approximately 15-20 police officers and 10 support staff;
3. University of Houston-Clear Lake – There are 15 police officers with very little support staff; and
4. University of Houston-Victoria – They use the shared services from UH with a full time position at UHV and a few other security staff.

Mr. Guyton also mentioned that at UH they also provide services for Sugar Land, Cinco Ranch, the Medical Center, Wortham House, and UHCL Pearland in addition to the UHV campus. Both UHCL and UH have different police policies from UH so the goal is to get everyone on the same page with consistent police policies to be enforced.

Regent Welder asked Dr. Morgan to comment on his experience at UHV. Dr. Morgan stated they were very fortunate to have the services that have been provided to them. They are involved in the hiring process and the training is completed by UH. UHV also sets their own

policies that basically fit in with the goals and the guidelines of the UH office. Dr. Morgan felt it has been a good working relationship for them; and from his perspective he felt there was nothing negative to report.

President Staples from UHCL stated that in terms of policy coordination, training coordination, there was a whole host of things that could be done. He believes there is already the model across the UH System; just as the chief academic officers meet, the chief financial officers meet, the chief student service officers meet, this could be the same thing. There are many things that are common to security operations at all four of the campuses plus our satellite campuses that he thinks through greater cooperation and collaboration we can be more effective.

Dr. Michael Olivas, President of UHD commented that they have had a model and exemplary police force for a number of years. They have recently lost their police chief of 16 years to become the police chief at Galveston. UHD is in the process of advertising and replacing him. Like any other policy, UHD is part of the System and Dr. Olivas believes that the System is stronger when all of the constituent parts are coordinated and at a certain level their needs are no different than the UH campus. They are very happy to be part of the System and they believe that this program should, if properly implemented, help them to do so.

Regent Welder also requested Dona Cornell, Vice Chancellor for Legal Affairs and General Counsel comment on this proposal. Ms. Cornell believes that this policy was well founded and the devil is in the details. It will be essential for the campuses to work together and it is important to have one set of policies; one entity that is responsible, e.g., for Clery compliance on all campuses. It is an expensive proposition to be compliant with regard to Clery which has very high fines, so in her point of view, is a high risk area. So having four different people, on four different campuses responsible for that one function, when you have small operations at some of the other locations, does not make economic sense. She sees that some shared services will be essential and there will need to be meetings held more frequently than every quarter.

Regent Welder stated that this was an important area for the Board and with discussions up until now everyone is certainly in agreement on the need for consistency with regard to policy and operations. Mr. Guyton commented that this was a high risk area; policing in itself is a high risk area as we have seen in the last several years around the country with colleges and universities, so he believes it is essential that the university address this issue and it makes sense. A brief discussion followed.

Regent Welder stated that it was suggested that the Board adopt the new policy as follows:

“The Chancellor shall establish and maintain a system-wide police operation under the direction of a single UHS police authority to help ensure the public safety of all students, faculty, staff and visitors for the University of Houston System.”

On motion of Regent Taaffe, seconded by Regent Mendoza, and by a unanimous vote of the committee members present, the System Police Operation for Efficiencies and Standardization – Report Update and Proposed Board Policy – UH System was approved.

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Following the approval of this item, Regent Welder stated that this item unanimously approved by the committee, would be addressed by the full Board at the Board of Regents meeting held later in the day.

Mr. Guyton moved to the next agenda item, Item D, a Report on External Audit Report UHS, Houston Public Media, Auditor's Report and Basic Financial Statements for FY2015 – University of Houston System. This report referred to the Annual Audit Report and Management Letter on Houston Public Media. Typically, these financial statements would have been presented at the February 18, 2016, Audit and Compliance Committee meeting, but this year the financial statements were late. In the auditor's Management Letter, the auditors attributed the lack of preparation for the audit and the deficiencies in internal control over the stations' financial reporting to some significant turnover in the stations' finance area. The reporting structure for this finance area has now been moved under the direction of the UHS/UH accounting area and the Financial Reporting group will meet with station finance personnel to help ensure that we do not have similar problems next year. Other issues that were encountered in this area were enumerated in Internal Audit's (IA) Departmental Review of the UHS/UH Administration and Finance Division which will be discussed later in the meeting.

One thing that was different this year in the financial statements was that pension liabilities were now restated and disclosed in accordance with new standards promulgated by the Governmental Accounting Standards Board as shown on the "Statements of Revenues, Expenses and Changes in Net Position" and as noted in footnote 3 to the financial statements. This resulted in an additional \$2,000,000 liability on the balance sheet.

Mr. Guyton also pointed out that on the financial statements the net loss was noted. Although the stations were still experiencing losses, they were not as severe.

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

Mr. Guyton presented Item E, a Report on External Audit Report – State Auditor Report 16-317 – Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2015 – University of Houston System. Mr. Guyton stated this item referred to the UHS excerpts of the State Auditor's recently issued reports on the Federal and Financial Portions of the State-wide Single Audit Report for FY2015. A listing of key points in the reports as they related to UHS entities were shown. The auditor's fieldwork at the UH System consisted of an audit of the University of Houston's Federal Financial Aid Programs and follow-up procedures on prior year audit findings at the University of Houston (UH), University of Houston-Downtown (UHD) and University of Houston-Victoria (UHV). Some of the State Auditor's recommendations for the University of Houston have been implemented and IA will ascertain whether any are still open recommendations. The State Auditor's Office determined that UHD and UHV have implemented the prior year's recommendations.

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 Institutional Compliance Status Report for the Three Months ended March 31, 2016 – University of Houston System. Mr.

Guyton stated that 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 required no committee action.

The next item listed on the agenda for discussion was Item G, a Report regarding the Internal Audit Briefing Booklet including Audit Activity Outline/Audit Plan Status, Internal Audit Reports, Internal Audit Quality Assurance Improvement Program Report, and follow-up Management Items on the Emergency Management/Safety and Security Audit – 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 seven (7) Internal Audit Reports since the February 18, 2016, 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 a Departmental Review of the UH Division of Administration and Finance; a review of UH Athletics NCAA Rules Compliance; a review of formula funding at UH-Downtown; reviews of Information Security Standards at UH-Clear Lake and UH-Victoria; 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. The reports containing a Management Action Plan were also included in the Briefing Booklet. An overview of all of IA’s recommendations were included in these reports.

Audit Report No. 2016-19, was IA’s follow-up report and addressed the status of 15 action items in 10 Individual Audit Reports. IA verified that 10 of the action items had been implemented and five (5) partially implemented. Updated management responses were obtained on the partially implemented action items. IA had three (3) high risk items in this report and two (2) of these were in the UHD Student Accounting and Receivables area which have been implemented. The other high risk item was in the Facilities Planning & Construction area and it should be completed by March 2017.

Audit Report No. 2016-20 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 comply with Institutional policies and State statutes, particularly the Texas Education Code. This report covered the activity from January 1, 2016 through March 31, 2016. A part of this report indicated the scope of the Internal Audit review. Internal Audit also modified this section in order to make it easier to examine.

Audit Report No. 2016-21 was IA’s report on their Departmental Review of the UH Division of Administration and Finance. IA noted one (1) matter that they considered a significant engagement observation: insufficient financial and administrative oversight over Houston

Public Media. In addition to the issues raised by the external auditor that IA previously discussed, IA noted numerous instances where business functions were inadequately performed. Management in the Administration and Finance Division were taking steps to make sure that these issues were addressed.

Audit Report No. 2016-22 referred to IA's report on UH Athletics NCAA Rules Compliance. This year IA tested the major area of Eligibility and Academic Performance and several other minor areas. There were no significant issues with this report.

Audit Report No 2016-23 was IA's report on UHD Formula Funding. The objective of this work was to determine whether UHD had adequate processes in place to help ensure accurate and complete reports were submitted to the Texas Higher Education Coordinating Board (THECB). This information represented some of the key elements of funding from the state. In IA's opinion, UHD's reporting processes were accurate and complete.

Audit Reports No. 2016-24 and No. 2016- 25 were IA's reports on Information Security Standards at UH-Clear Lake (UHCL) and UH-Victoria (UHV). Internal Audit had recommendations in both of these reports but they had a significant engagement observation at UHCL. UHCL's Information Security Officer had been employed at the university for less than a year and did not directly report to executive management as required by the Texas Administration Code, Section 202, and he was not knowledgeable of all of his responsibilities, including providing an Annual Report to the President. Management has indicated that it will correct these deficiencies. A brief discussion followed.

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. One of these items was the State Comptroller's Post-Payment Audit of UH System Administration. IA expects their report to be on the agenda of the August 25, 2016, Audit and Compliance Committee meeting.

Mr. Guyton also stated that a recommendation in the UHCL Report on IT Security stated they should confer with the UH's Chief Information Officer (CIO) because they had, in fact, gone out and done security reviews at other institutions. Mr. Guyton said that President Morgan could tell the Board exactly what had been done for him at UHV when they provided him with a thorough assessment and a series of recommendations to help him enhance UHV's IT Security.

President Morgan stated they had met for the better part of a semester with the UHS CIO, Dr. Dennis Fouty and a team from the UHV campus. They brought UHV many good recommendations about their organization and their security; but of equal importance, some ideas about sharing resources with the System technology to reduce individual costs, to provide greater efficiency, and all of those things that contribute to their being more effective with their technology. It was an excellent report. UHV is in the process of prioritizing the steps and implementing them as they can, again with the help of the UHS CIO. A discussion followed.

The Audit Plan Status was also noted and the footnotes indicated the status on the other audit areas which were scheduled to take place in 2016. During the February 18, 2016, Audit and Compliance Committee meeting, IA agreed to include in their follow-up database all actions required as a result of the most recent Emergency Management / Safety and Security Audit Report. These items were included in the Briefing Booklet and will be included in IA's follow-up database.

Internal Audit's report on their Quality Assurance Improvement Program was also included in the Briefing Booklet. This is a requirement of the Institute of Internal Auditors *Standards*.

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

Item H, the Report on UH System Support Organizations – University of Houston System – (1) Compliance Review of UH System Support Organizations and (2) UH System Support Organizations Report.

Mr. Guyton stated this item referred to the Compliance Review of UH System Support Organizations and the UHS Support Organizations Report. The Compliance Review of UH System Support Organizations indicated the status of the receipt of this information. The Compliance Review was prepared by the UH System Advancement and the accompanying compilation of financial information was prepared by the UH System Financial Reporting. The only items that Internal Auditing has not received were the tax returns of the UH College of Business Foundation and the Foundation for Education and Research in Vision.

The UHS Support Organizations Report was a compilation of information from audited financial statements, the IRS Forms 990, Investment Reports, and other information furnished to UHS 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 System related to these organizations were addressed in agreements between the System and the organizations. In meeting the requirements of the Board of Regents' policy on Support Organizations, the System implemented a policy on Support Organizations which requires them to furnish certain information to the System. This requirement was spelled out in the UHS agreements with the Support Organizations. All foundation agreements have been updated over the past two (2) years.

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

At 11:34 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 12:35 p.m.

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and stated that the Board had met in Executive Session and discussed legal matters and our Chief Audit Executive, Mr. Don Guyton was given his annual Board evaluation. 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 12:35 p.m.

Others Present:

Renu Khator
Jim McShan
Paula Myrick Short
Dona Cornell
Lisa Holdeman
Jason Smith
Eloise Dunn Stuhr
Richard Walker
Mike Johnson
Raymond V. Morgan
Michael A. Olivas
William Staples
Matthew Castello
Deidre Garcia
Jon Aldrich
Joe Brueggman
Gerry Mathisen

Don Guyton
Sandra Dahlke
Ed Hugetz
David Oliver
Cesaer Moore
Mary Ann Ottinger
Sabrina Hassumani
Mike Emery
Wayne Beran
Mark Clarke
Brett Collier
Faye Landry
Mike Glisson
Iggy Harrison
Phil Booth
Ben Aldrich

Russ Hoskens
Chris Stanich
Raymond Bartlett
David Bradley
Dan Yackley
Ashlee Ross
Travis Gundeloch
Jesse Pisors
Emily Messa
Dan Maxwell
Kathy Walton
Don Smith
Shannon Harrison
Brian Thomas
Katie Brown
Brenda Robles