

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

Thursday, August 20, 2015 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 10:40 a.m. on Thursday, August 20, 2015 at the Hilton University of Houston, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Roger F. Welder, Chair
Peter K. Taaffe, Vice Chair
Beth Madison, Member
Paula M. Mendoza, Member
Tilman J. Fertitta, Ex Officio

Non-Member(s) Present

Durga Agrawal, Regent
Spencer D. Armour, III, Regent
Jarvis V. Hollingsworth, 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 committee would be presented seven (7) items: four (4) action items and three (3) information items and asked Mr. Don Guyton, Chief Audit Executive, to present these items to the committee.

AGENDA ITEMS

Mr. Guyton stated he would like to take the agenda out of order and introduced the Peer Review Team, who was present at the meeting. This team was very qualified individuals from their respective institutions: Tammy Birchett, Tennessee Board of Regents System; Betsy Bowers, University of West Florida; and Kevin Robinson, Auburn University. These individuals have been interviewing key management personnel and were in the process of completing a thorough review of the Internal Audit Department. Mr. Guyton thanked them for their work during their visit. Regent Welder also stated that he had met with the group and was very impressed and thanked them for their time during the Peer Review Process.

Following the introduction of the Peer Review Team, Mr. Guyton continued with his presentations. Mr. Guyton stated that there was one (1) open point from the May 21, 2015, Audit and Compliance Committee meeting.

When the Support Organization Report was discussed, the committee requested an update on the outstanding items that the System had not yet received from the Support Organizations. At the May 21, 2015 committee meeting, the outstanding items were the IRS Form 990's for the Law Foundation, the Alumni Organization and the Houston Cougar Foundation, the financial

statements for the Alumni Organization and the Houston Cougar Foundation and the Conflict of Interest Policy and Certifications of Compliance for the Trustees/Directors of the Foundation for Education and Research in Vision. Mr. Guyton stated that all of this information has now been received,

Mr. Guyton introduced the first action item for the committee's consideration, Item B, Report on Long-Range Internal Audit Plan for Fiscal Years 2016-2018 – University of Houston System – AUDIT-B. Mr. Guyton stated that this report had the final draft of the Long-Range Internal Audit Plan for Fiscal Years 2016-2018 for their review and approval. An executive summary of the plan; the resource and budget information; and the listing of the audit team members were all in the plan. The plan also contained a risk assessment for all components. Risk assessment techniques had been employed to identify auditable areas and to ensure that the accounting systems and controls, the administrative systems and controls, and other major systems and controls were reviewed on a periodic basis.

Mr. Guyton stated that this year there were two (2) additional areas in the Audit Plan as a result of recent legislation. Rider 8 of Article III of the Appropriation Act requires the Internal Auditor to conduct an audit of benefits proportional by fund for Fiscal Years 2012 through 2014 using a methodology approved by the State Auditor's Office. Internal Audit ("IA") had already conducted an audit in this area for FY 2013 and issued their report to the committee during the November 2014 committee meeting. The second area dealt with Contract Administration required by Senate Bill 20. This bill requires the Internal Auditor to annually assess whether the institutions have the policies required by the bill and to conduct risk-based testing of Contract Administration. Three years ago, IA initiated a method to review the process by which large construction contracts were awarded and they recently expanded that process to include all contracts requiring Board of Regents' approval. Although IA already had Contract Administration in their audit universe, they expanded the scope of their work to provide increased coverage on the larger or higher risk contracts. The risk assessment was included in the Audit Plan. Audits of these higher risk areas should help mitigate some of the risk. Internal Audit has also prepared a separate risk analysis for each System campus. In preparing the Audit Plan and Risk Analysis, IA received input from key personnel throughout the entire System, including the Chancellor and the Chair of the Audit and Compliance Committee.

The Texas Government Code, Section 2102 requires the Board of Regents to approve the Audit Plan and periodically review the resources dedicated to the Internal Audit program and determine if adequate resources exist to ensure that risks identified in the Annual Risk Assessment were adequately covered within a reasonable timeframe. The Internal Audit resources and budget were described in the Audit Plan and had been included in the Executive Summary; and the budgeted hours were also calculated and included in this section.

Mr. Guyton also noted that in the Organization Chart of the Internal Auditing Department, there were two (2) vacant positions including a manager position and a senior auditor position. IA is entering into a co-source arrangement for additional IT audit resources and IA will inform the committee of the status of that engagement at the November 2015 meeting. IA plans to fund this engagement with their unexpended fund balances and/or request additional resources, if necessary. With the addition of the new audit manager position, IA believes that the resources dedicated to the Internal Audit Program are adequate.

On motion of Regent Mendoza, seconded by Regent Madison, and by a unanimous vote of the regents in attendance, the Report on Long-Range Internal Audit Plan for Fiscal Years 2016-2018 – UH System was approved.

The next action item presented to the committee by Mr. Guyton was Item C, the Report on Board of Regents Policies: 41.01, Internal Auditing; 53.04, Approval of Construction Projects; 55.01, Contracts, 57.01, Code of Ethics; Consulting and Paid Professional Service; 57.04, Dual Office Holding; 57.05, Outside Employment or Appointments of Executive Officers; and 57.08, Conflicts of Interest – University of Houston System – AUDIT-C.

Mr. Guyton presented this item which referred to eight (8) Board of Regents' policies that required revisions as a result of the recently enacted Senate Bill 20 of the 84th Legislature. The policies were 41.01, Internal Auditing; 53.04, Approval of Construction Projects; 55.01, Contracts; 57.01, Code of Ethics; 57.02, Consulting and Paid Professional Service; 57.04, Dual Office Holding; 57.05, Outside Employment or Appointments of Executive Officers; and 57.08, Conflicts of Interest.

Mr. Guyton stated that Senate Bill 20 required the Board of Regents to adopt standards for internal audit for risk management, control and governance related to contracts, and to require risk-based testing related to Contract Administration. These changes were reflected in the revisions to paragraphs 41.01.1.C and 41.01.3.A. Senate Bill 20 also required the Board of Regents to establish policies for the internal investigation of suspected defalcation, misappropriation and other fiscal irregularities and this change to the policy was reflected in 41.01.4.F.

Mr. Guyton requested Dona Cornell, Vice Chancellor for Legal Affairs and General Counsel to explain some of the changes to these policies, as well as Mike Glisson, Assistant Vice Chancellor for Finance, who addressed changes to the procurement policy.

Ms. Cornell addressed the changes made to **53.04 – Approval of Construction Projects.** The changes to this policy now state that every contract over \$1,000,000 must go to the Board of Regents for approval. In the past, depending on the type of contract, it might have been a much higher threshold stated Ms. Cornell. All of the changes in the Board of Regents' policies now reflect the new requirements of Senate Bill 20.

Ms. Cornell also addressed **57.08 – Conflicts of Interest.** The Legislature has changed the threshold about what they actually consider a conflict of interest. There was some legislation that was a little inconsistent with the changes in Senate Bill 20 but based on statutory construction and looking at the law that is the most current, the Board policies are now consistent with the changes in Senate Bill 20, which is the more current law. The threshold that used to be at 10% financial interest is now at a 1% threshold.

Mr. Glisson stated there were many changes in Senate Bill 20 which were related to procurement and contracting. Mr. Glisson reported on the most notable ones such as:

1. The University must maintain a list of all contracts and purchase orders on the University's website starting September 1, 2015;

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2. The University must maintain a copy of all contracts and all documentation related to the solicitation of those contracts for seven (7) years after the contracts expires;
3. In addition, all employees have to receive procurement and ethics training relating to contracting;
4. Any employee who participates in the negotiation of a contract or procurement process, and then leaves the University, cannot work for the company that was selected for two (2) years after the employee leaves the University; and
5. As previously stated, the Board must approve all contracts over \$1,000,000.

The complete listing of changes for all of the Board of Regents' policies may be found at the following link for quick reference: <https://v3.boardbook.org/Public/PublicItemDownload.aspx?ik=37467558>.

On motion of Regent Mendoza, seconded by Regent Taaffe, and by a unanimous vote of the regents in attendance, the Report on Board of Regents Policies: 41.01, Internal Auditing; 53.04, Approval of Construction Projects; 55.01, Contracts, 57.01, Code of Ethics; Consulting and Paid Professional Service; 57.04, Dual Office Holding; 57.05, Outside Employment or Appointments of Executive Officers; and 57.08, Conflicts of Interest – University of Houston System was approved.

Mr. Guyton introduced the next action item for the committee's consideration, Item D, the Report on Audit and Compliance Committee Charter and Checklist – University of Houston System – AUDIT-D.

Mr. Guyton stated this item referred to the Audit and Compliance Committee Charter and Checklist which were the recommended guidelines for the operation of the Audit and Compliance Committee. An annual review and update of the Audit and Compliance Committee Charter and Checklist is required each year. There were no suggested changes to this document which was last approved by the Audit and Compliance Committee at its August 2014 meeting.

On motion of Regent Mendoza, seconded by Regent Madison, and by a unanimous vote of the regents in attendance, the Report on Audit and Compliance Committee Charter and Checklist – UH System was approved.

At the conclusion of the approval of this action item, Regent Welder called for a motion to place these three (3) action items presented to the committee and require full Board approval on the Board of Regents' Consent Docket Agenda at the Board of Regents meeting scheduled for later today, Thursday, August 20, 2015.

On motion of Regent Mendoza, seconded by Regent Taaffe, and by a unanimous vote of the committee members present, the following three (3) action items will be placed on the Board of Regents' Consent Docket Agenda for final approval at the August 20, 2015 Board meeting as listed below:

1. Report on Long-Range Internal Audit Plan for Fiscal Years 2016-2018 – University of Houston System;

2. Report on Board of Regents Policies: 41.01, Internal Auditing; 53.04, Approval of Construction Projects; 55.01, Contracts, 57.01, Code of Ethics; Consulting and Paid Professional Service; 57.04, Dual Office Holding; 57.05, Outside Employment or Appointments of Executive Officers; and 57.08, Conflicts of Interest – University of Houston System; and
3. Report on Audit and Compliance Committee Charter and Checklist – University of Houston System.

The final action item for the committee's consideration was Item E, the Report on Audit and Compliance Committee Planner – University of Houston System – AUDIT-E.

Mr. Guyton stated this item referred to the Audit and Compliance Committee Planner. This planner lists all actions required of the Audit and Compliance Committee with recommended schedules for these activities. Item 2.04 in the Audit and Compliance Committee Planner requires that the Audit and Compliance Committee approve the Planner for the upcoming year. There were no suggested changes to the planner since it had been approved by the committee one year ago. This item requires only the approval of the Audit and Compliance Committee and not the full Board.

On motion of Regent Taaffe, seconded by Regent Mendoza, and by a unanimous vote of the regents in attendance, the Report on Audit and Compliance Committee Planner – UH System was approved.

Item F, the Report on Internal Audit Report – Briefing Booklet – University of Houston System – AUDIT-F was the next item presented to the Committee. Mr. Guyton stated the Briefing Booklet contained an activity outline and from this outline Internal Audit (“IA”) prepared 13 Internal Audit Reports since the May 21, 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 for Fiscal Year 2015 and included a report required by the Texas Higher Education Coordinating Board (“CB”) on the UHS Facilities Development Projects; a Report on UH Athletics NCAA Rules Compliance; Reports on Endowments at UH-Victoria; the UH Honors College; and the UH College of Pharmacy; Departmental Reviews of the UH System and UH Chancellor/ President; UH-Athletics; and UH-Clear Lake Administration and Finance Division; a Report on IA’s review of UH Facilities Planning and Construction; a Report on the internal assessment of the Internal Auditing Department; an Information Technology Audit Activity Report; a Review of Construction and Other Contracts requiring Board of Regents’ approval; and IA’s quarterly follow-up activity report. 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. Five (5) of these reports contained Management Action Plans and were included in the Briefing Booklet as well as an overview of IA’s recommendations.

Audit Report No. 2015-22 was IA’s follow-up report and addressed the status of 39 action items in 15 individual Audit Reports. IA verified that 24 of the action items have been implemented

and 15 partially implemented. Updated management responses have been obtained on the partially implemented action items. IA had one (1) high risk item in this report related to cost center verifications in the College of Liberal Arts and Social Studies and that action item has now been implemented.

Audit Report No. 2015-23 was IA's review of construction and other contracts requiring Board of Regents' approval. The objective of this review was to determine whether the University of Houston System ("UHS") was complying with its policies and procedures and the Texas Education Code in selecting contractors for its major construction contract projects and other contracts requiring Board of Regents' approval. This report was different from previous reports in that this report included all contracts over \$1.0 million, including construction contracts. This was as a result of the recently enacted Senate Bill 20. The construction contracts between \$1.0 million and \$10 million were noted in this report and there were quite a few contracts listed under the Finance and Administration Committee, including one (1) for Nike Apparel and Equipment. Mr. Guyton stated that N/A was listed in the solicitation type because this was a request for the approval of an amendment to a contract that began in 2008 and was supposed to expire on July 31, 2016. A new solicitation should be issued at the end of the term of this amended contract. A footnote was noted which explained this item. Internal Audit only performed minimal work this quarter and they noted no unusual items or other matters that they considered non-compliant with University policies and procedures or State statutes.

Audit Report No. 2015-24 was IA's report for the Texas Higher Education Coordinating Board ("CB") on the review of UHS Facilities Development Projects. Two (2) instances were noted where accurate project costs had not been submitted to the CB and management intends to correct those costs on the next submission of their report.

Audit Reports No. 2015-27, No. 2015-31, and No. 2015-32 were IA's reports on the Departmental Reviews of UH-Clear Lake, Administration and Finance, UHS/UH Chancellor / President and UH Athletics Department. IA did not identify any significant issues in these reviews, said Mr. Guyton.

Audit Reports No. 2015-26, No. 2015-29, and No. 2015-30 were IA's reports on their review of Endowments at UH-Victoria, the UH Honors College and the UH College of Pharmacy. IA did not identify any significant issues in these reviews.

Audit Report No. 2015-25 was IA's report on UH Athletics NCAA Rules Compliance. IA had a scope limitation with a portion of this work because certain reports were unavailable as a result of a conversion from one Athletics Compliance Information System to another one. The Assistant Athletic Director believes that the information, if needed, can be obtained from the previous software vendor for a fee. IA noted several observations where management could improve compliance administration, including records retention; and management was in the process of taking appropriate action on those areas.

Audit Report No. 2015-28 was IA's review of UH Facilities Planning and Construction. Two (2) significant observations were noted by IA in this review as follows:

1. Facilities Planning and Construction management had not developed procedures to help ensure accomplishments of its mission or the effective and efficient use of resources; and
2. Customer satisfaction could be significantly improved. Management has recently issued an RFP for a comprehensive review of the Department, its policies and procedures, staffing levels, project delivery systems and tools, and customer services surveys and an analysis of procedures. Management was also in the process of hiring a new Executive Director for Facilities Planning and Construction.

Audit Report No. 2015-33 was IA's Information Technology Audit Activity Report, FY 2014.

Audit Report No. 2015-34 was IA's Internal Assessment of Internal Auditing. In this review, their Senior Auditor, Brandee O'Neal made recommendations related to automating the Project Reporting Process, enhancing IT audit coverage, modifying engagement planning procedures and enhancing the use of data extraction tools and techniques. IA intends to implement these recommendations and the ones that were offered by their External Peer Review Team.

IA has various scheduled audits in the reporting or fieldwork in progress phase or in the planning phase. These audits were included in the Board-approved Internal Audit Plan for 2015.

IA also has various Special Projects in Progress. FEMA was still conducting audits of UH's reimbursements for Hurricane Ike. The State Comptroller is wrapping up its post-payment audit at UH-Downtown; and the State Auditor's Office has started its annual Statewide Audit of UH's Federal Financial Aid Programs. Although the U.S. Department of Education performed their on-site fieldwork for the Title IV Program Review during May 2013, IA only received the preliminary report during the first week of August. Management was still in the process of reviewing the findings and supporting documentation of this report and IA will submit its formal response to the U.S. Department of Education regarding the report by the October deadline.

It was also noted that behind the activity outline was the Audit Plan Status. The shaded areas noted have been completed and the footnotes in the report indicated the status on the other areas.

Mr. Guyton also stated that in the Briefing Booklet was a narrative on the External Assessment of the Internal Auditing activity and the biographies of the External Peer Review Team members, all of whom were introduced at the beginning of the meeting to the committee members.

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

Mr. Guyton presented the next information item, Item G, the Report on Institutional Compliance Status Report for the three months ended June 30, 2015, and Annual Plan for FY2016 – University of Houston System – AUDIT-G.

Mr. Guyton stated this item referred to the Institutional Compliance Status Report for the three (3) months ended June 30, 2015, and each Institution's Annual Compliance Plan for FY2016. This report lists activities for the three (3) months ending June 30, 2015, which include risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports. At the beginning of this report, 38 hot-line reports were received during this three (3) month period. Many of these reports were Human Resource-related issues; and there were 10 unresolved reports as of June 30th. At the completion of this fiscal year, IA will prepare an annual report on all reports received during the year which will categorize the types of reports received. This report will be on the agenda for the November 2016 Audit and Compliance Committee meeting.

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

Mr. Guyton moved to the last information item on the agenda, Item H, the Report on External Audit Report – Selected State Entities' Compliance with Requirements Related to the Historically Underutilized Business Program and the State Use Program – University of Houston System – AUDIT-H.

Mr. Guyton stated this item referred to the State Auditor's Report on Selected State Entities' Compliance with Requirements Related to the Historically Underutilized Business ("HUB") Program and the State Use Program. This agenda item contained the excerpts of the report related to the University of Houston ("UH"). The State Auditor concluded that UH substantially complied with the requirements of both programs and offered recommendations for improvements; and UH management intends to implement these recommendations. Mr. Guyton introduced again Mike Glisson, UHS/UH Controller and Maya Thornton, HUB Director, who were both in attendance and available to answer any questions, as well as make a brief presentation on the current HUB practices and initiatives.

Mr. Glisson stated that Maya Thornton had joined the University of Houston in July 2014 as the HUB Program Director. Ms. Thornton was asked to give a brief overview of the HUB program and below is a summary of her remarks.

- The HUB program has been thriving since she arrived; and there have been substantial changes made for the program.
- Some of the findings as they pertained to the audit were actually cured prior to the State auditing the HUB program.
- UH HUB and Non-HUB expenditures from FY 2007 through FY 2014 were addressed. As noted over this timeframe, HUB expenditures have definitely grown over this time period.
- UH and Statewide HUB usage from FY 2007 – FY 2014 was given and as of FY 2014, UH HUB usage was 28.43% versus Statewide usage of 12.58%.
- Maya Thornton is the HUB Program Director and is responsible for HUB outreach, training, compliance, and reporting.
- Maira Artola is the HUB Specialist and was started May 1, 2015. Ms. Artola assists the HUB Program Director, especially with outreach, UH Department compliance and training.
- An additional HUB Specialist will be hired to begin in mid-September 2015, who will assist the HUB Program Director, especially with contractor compliance and training.
- HUB Program Initiatives were outlined as follows:

- Outreach
 - Host Monthly HUB Vendor Showcases
 - Host Annual HUB Vendor Fair
 - Host Annual HUB Forum
 - Present at HUB Forums locally and around the State
- Training
 - Train Departments to Use the HUB Directory to Find HUB Vendors
 - Train HUB Vendors How to Do Business with UH
 - Train Prospective HUB Vendors How to Become HUB Certified
 - Train Prime Contractors How to Recruit HUB Subcontractors
- Reporting
 - Send Monthly Report of HUB Spending Opportunities to Departments
 - Post Monthly HUB Usage Report by College/Division on UH Website
 - Submit Quarterly Progress Reports to the Comptroller and LBB
 - Submit Semi-Annual Reports to the Comptroller for Statewide Reports
- Compliance
 - Review and Approve Subcontracting Probability Form
 - Review and Approve HUB Subcontracting Plan Compliance Form
 - Monitor Prime Contractor Compliance with HUB Subcontracting Plan

A brief question and answer discussion followed Ms. Thornton's overview of the HUB program. It should be noted that since Ms. Thornton's arrival in July of 2014, the HUB program has thrived. Mr. Guyton mentioned that following the exit conference with the State Auditor that the State Auditor did recognize that some of issues that were mentioned would not have been found under the current process. Most of the problems had been fixed prior to the State Auditor's review.

Chancellor Khator commented that the State Auditor's report had found UH to be substantially compliant with the requirements of both programs. The next category would have been "fully compliant." Dr. Khator questioned the State Auditor and Ms. Thornton and asked, if this audit had been done today, what was their sense – would UH be fully compliant; and the answer from their point of view was "yes" from every perspective! Dr. Khator thanked them for their hard work and she appreciated their efforts.

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

At 11:30 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 11:52 a.m. and stated that the Board had meet in Executive Session and discussed the performance of the Chief Audit Executive, Mr. Don Guyton. The Board and the Chancellor reviewed Mr. Guyton's

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performance and believe his work to be outstanding. The Board appreciates his hard work and his continued commitment to the University of Houston System.

There was no action taken in Executive Session.

There being no further business to come before the committee this meeting was adjourned at 11:57 a.m.

Others Present:

Renu Khator

Jim McShan

Paula Myrick Short

Dona Cornell

Ramanan Krishnamoorti

Richard Walker

William Flores

Raymond V. Morgan

William Staples

Don Guyton

Mark Clarke

Joe Brueggman

Ed Hugetz

Sacha Ryder

Marquette Hobbs

Mike Glisson

Sandra Dahlke

Maya Thornton

Jeffrey Cass

Tammy Birchett

Kevin Robinson

Matthew Castillo

Raymond Bartlett

Mike Emery

Jon Aldrich

Carl Stockton

Jesse Pisors

Akif Uzman

Shannon Harrison

Brenda Robles

Russ Hoskens

Wayne Beran

Richard Baker

Dan Maxwell

Betsy Bowers

Dick Phillips

Phil Booth

Ryan Harrison

Mark Yzaguirre

Brandee O'Neil

Don Price

Sabrina Hassunami

Lamar Pritchard

Brian Thomas

Gerry Mathisen