

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

Thursday, August 24, 2017 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 10:07 a.m. on Thursday, August 24, 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**

Roger F. Welder, Chair  
Peter K. Taaffe, Vice Chair  
Durga D. Agrawal, Member  
Paula M. Mendoza, Member

**Non-Member(s) Present**

Spencer D. Armour, III, Regent  
Beth Madison, Regent  
Gerald W. McElvy, Regent  
Welcome W. Wilson, Jr., Regent  
Neelesh C. Mutyala, Student Regent Non-voting

**Member(s) Absent:**

Tilman J. Fertitta, Ex Officio

In accordance with a notice being timely posted with the Secretary of State and there being a quorum in attendance, the Chair of the Committee, Roger F. Welder called the meeting to order at 10:07 a.m. He stated the committee would be presented six (6) items: one (1) for committee and board approval; three (3) requiring committee approval only; and two (2) items for information only.

Regent Welder stated the first order of business would be Item B, the approval of the minutes listed on the committee's agenda.

**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:

- May 18, 2017, Audit and Compliance Committee Meeting

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

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**AGENDA ITEMS**

Mr. Guyton began his remarks stating there were no open points from the May 18, 2017 committee meeting.

The first agenda item introduced by Mr. Guyton was AUDIT-C, a Report on Long Range Internal Audit Plan for FY2018-2020 – University of Houston System. Mr. Guyton stated this item contained for the Board's review and approval, the final draft of the Long Range Internal Audit Plan for Fiscal Years 2018-2020. An Executive Summary of the plan was listed in Section 1 in the plan; the resource and budget information and the listing of the Audit Team members were listed in Sections 2 and 3 respectively. 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. Audits of these higher risk areas should help mitigate some of the risk. In preparing the Audit Plan and risk analysis, Internal Auditing ("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 in the Executive Summary and in the Summary of Effort. In this Summary of Effort Section, the budgeted hours were calculated and a description of the resources was provided. This year's budget included a UH mandated 3.5% budget reduction or approximately \$49,000. This amount had been included in IA's Maintenance and Operations ("M&O") budget, a portion of which was used to fund IA's co-sourced Information Technology ("IT") audits and IA was replenishing this amount with their existing fund balance. IA had also requested and received additional recurring funding of approximately \$54,000 to fund their vacant administrative assistant position and other recurring funding items. IA's unexpended fund balances were also helping fund the additional IT audit resources. IA believes the resources dedicated to the Internal Audit Program were adequate as long as they had sufficient fund balances to fund their co-sourced IT audits.

It was also noted in the Internal Auditing Department's Organization Chart, that they have one (1) vacant administrative position which they hope to fill shortly. In Section 3 on IA's audit team contains brief biographies of their team members. Mr. Guyton introduced each audit team member to the committee members who were in attendance at the meeting as follows:

Tony Moreno	Isimeme Emafor	Randy Wong
Tamara Davis	Eric Porter	Ray Hale
Brandee O'Neal	Dia Mobe	Russ Hoskens
Sandra Dahlke	Connie Applebach	Emily Tran (unable to attend meeting)

Regent Welder thanked Mr. Guyton for introducing the members of his staff to the Board and for all of the work that they do. It is a huge job and from the Board's perspective, all of the work that they accomplish was extremely important to the safety and soundness of the University and the Board was indebted to IA for their efforts and greatly appreciated all of their efforts and hard work.

Following Regent Welder's remarks, Mr. Guyton continued his presentation and stated Section 6 of the report had also contained the three (3) year Schedule of Planned Engagements. This Audit Plan included a summary of the Internal Audit Resources which had been presented to committee for their review and approval and then for final approval by the full Board later in the day.

On motion of Regent Agrawal, seconded by Regent Mendoza, and by a unanimous vote of the committee members in attendance, the Report on Long Range Internal Audit Plan for FY2018-2020 – UH System was approved.

At the conclusion of the approval of this action item, Regent Welder called for a motion to place this action item presented to the committee on the Board of Regents' Consent Docket Agenda for final Board approval at the Board of Regents meeting.

On motion of Regent Taaffe, seconded by Regent Agrawal, and by a unanimous vote of the committee members present, the following action item was placed on the Board of Regents' Consent Docket Agenda for final Board approval at the Board of Regents meeting held later that day, August 24, 2017, as listed below.

1. Report on Long-Range Internal Audit Plan for Fiscal Years 2018-2020 – UH System;

Mr. Guyton presented the following two (2) action items together for the committee's consideration and approval as follows:

1. AUDIT-D, Report on Audit and Compliance Committee Charter and Checklist – UH System; and
2. AUDIT-E, Report on Audit and Compliance Committee Planner – UH System.

Mr. Guyton stated that the Audit and Compliance Committee Charter and Checklist were the recommended guidelines for the operation of the Audit and Compliance Committee. Item No. 26, on the Audit and Compliance Committee Charter and Checklist, requires an annual review and update. There were no suggested changes to this document which had last been approved by the Audit & Compliance Committee at its August 25, 2016 meeting.

The second item addressed by Mr. Guyton referred to the Audit and Compliance Committee Planner. The Planner lists all actions required of the Audit & Compliance Committee with recommended schedules for these activities. Item 2.04 requires the Audit and Compliance Committee to approve the Audit and Compliance Committee Planner for the upcoming year.

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There were no suggested changes to the Planner since it had been approved by the Audit Committee one year ago.

Both of the items presented by Mr. Guyton required the approval of the Audit and Compliance Committee only and not the Board.

On motion of Regent Agrawal, seconded by Regent Taaffe, and by a unanimous vote of the committee members present, the following two (2) action items were approved by the committee as follows:

1. Report on Audit and Compliance Committee Charter and Checklist – UH System; and
2. Report on Audit and Compliance Committee Planner – UH System

As noted, both of the above items required committee approval only.

The next item presented to the committee by Mr. Guyton was AUDIT-F, a Report on Internal Audit Briefing Booklet including Audit Activity Outline/Audit Plan Status, Internal Audit Report – UH System.

Mr. Guyton stated this report referred to the Internal Audit Briefing Booklet. The first section in the Briefing Booklet contained an Activity Outline. The Briefing Booklet also contained an Activity Outline which indicated that IA prepared seven (7) Internal Audit Reports since the May 18, 2017, Audit & 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 Reviews of the UH-Victoria's ("UHV") School of Arts and Sciences, and School of Education, Health Professions and Human Development, and UH-Clear Lake's ("UHCL") College of Education. This document also included a review of construction and other contracts requiring Board of Regents' approval, and IA's quarterly follow-up activity. Also included in this document were two (2) Special Project Reports related to the Katy property transaction last year. These reports will be submitted to the Sunset Advisory Commission; the Governor's Office of Budget, Planning, and Policy; the State Auditor; and the Legislative Budget Board, as required by the Texas Government Code. Five (5) of these reports 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. 2017-30 was IA's follow-up report and addressed the status of 21 action items in 11 Individual Audit Reports. IA verified that 12 of the action items had been implemented and nine (9) partially implemented. Updated management responses had been obtained on the partially implemented action items. IA had one (1) high risk item in this report and it had been completed.

Audit Report No. 2017-31 was IA's review of construction and other contracts requiring Board of Regents' 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 complied with institutional policies and state statutes, particularly the Texas Education Code. This report covered the activity from April 1, 2017 through June 30, 2017. Appendix 1 of this report indicated the scope of the Internal Audit Review. Mr. Guyton pointed out that Note B on this Appendix had indicated that one (1) contract for Legal Services greater than \$1 million requiring Board of Regents' approval had not been listed as it was not in the scope of Internal Audit's review and it would be on the agenda for the Finance and Administration Committee meeting. Mr. Guyton requested Ms. Cornell, Vice Chancellor for Legal Affairs and General Counsel, to comment on this contract.

Ms. Cornell stated this contract was for Intellectual Property ("IP") Services and the majority of this contract was for IP, patents and IP patent prosecution issues in the amount of \$1.8 million for that firm. Ms. Cornell said that a Request for Qualifications ("RFQ") process had been completed and had been sent through the Attorney General's ("AG") office. Legal is unable to contract except going through the AG's office. Legal uses their standard form contracts and there are many prerequisites and controls put into place before any of these contracts are done, said Ms. Cornell; and from her personal experience, they were very thorough. Regent Armour asked Ms. Cornell if there were any other contracts that needed to go through the AG's office; and Ms. Cornell stated that all Outside Counsel contracts, regardless of the amount, must go through the AG's office for processing.

Internal Audit had performed work on nine (9) different procurement projects and no unusual items or areas of non-compliance had been noted.

Audit Report No. 2017-32; Audit Report No. 2017-33; and Audit Report No. 2017-34 were IA's reports on the Departmental Reviews of UHV School of Arts and Sciences, UHV School of Education, Health Professions, and Human Development, and UHCL College of Education. IA had not identified any significant issues in the reviews of the UHV School of Arts and Sciences or UHCL College of Education. For the UHV School of Education, Health Professions, and Human Development, IA noted a condition that they had considered a significant risk exposure and control issue. This condition was insufficient financial and administrative oversight. IA had obtained assurances from the Dean, Provost and CFO that they would help ensure that required financial and administrative tasks were performed in a timely manner. The CFO also plans to implement a monitoring mechanism to help ensure that key tasks were performed by all units within the University. A brief discussion followed.

Special Project Report No. 2017-06 on UH Katy Real Estate Purchase Negotiations was a report on IA's review of certain aspects of the Katy real estate transaction to determine the nature of the involvement of the Chair of the Facilities, Construction & Master Planning Committee ("FCMP") of the Board of Regents in this transaction and whether there was non-compliance with statutes or Board of Regents and/or University policies. This review had been performed at the request of the General Counsel. In Mr. Guyton's opinion, the Chair of the FCMP Committee performed certain tasks related to the Katy real estate transaction that should have been performed by management rather than a member of the Board of Regents. By performing these tasks, the Chair of the FCMP Committee risked not meeting the expectations and guidance of certain provisions of the Texas Education Code and Board of Regents Bylaws. The

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Office of General Counsel plans to conduct refresher training for members of the Board of Regents during the fall semester of each year.

Special Project Report No. 2017-07 was a report on IA's review of certain aspects of the Katy real estate transaction to determine if a bargain sale had been recorded in the University Advancement System or the Financial System and whether there was non-compliance with statutes or Board of Regents and/or University policies. This review had been performed at the request of the General Counsel. IA determined that University Advancement did record a bargain sale or gift-in-kind in the University Advancement Information System and there had been no related entry in the Financial System. University Advancement did not comply with Board of Regents and System policies, best practices, and University Advancement policies and procedures related to the Katy property transaction. The Administration and Finance Division and University Advancement Division should have a reconciliation process in place by the end of October 2017 to make certain these two (2) systems reconcile. The Office of Real Estate Services and University Advancement have modified their policies and procedures to clarify roles and responsibilities in real estate transactions.

Referring back to the Activity Outline as noted on Items 2 and 3 of the Outline, Mr. Guyton stated there were various scheduled audits in the Reporting Phase, Fieldwork in Progress Phase or in the Planning Phase. These audits were included in the Board approved Internal Audit Plan for 2017. In the Reporting and Fieldwork in Progress phases, IA had listed two (2) co-sourced IT audits on UHS Cybersecurity and Advancement System which were considered confidential under the provisions of the Texas Government Code, Section 552.139.

As noted on Item 4, IA also had various Special Projects in Progress. FEMA was still conducting audits of UH's reimbursements for Hurricane Ike. The State Auditor's Office has started its annual statewide audit of UH's Federal Financial Aid Programs. The US Department of Education performed their on-site fieldwork for the Title IV Program Review during May 2013; IA received the preliminary report during August 2015; and IA filed their formal response during October 2015.

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

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

The last item presented by Mr. Guyton was AUDIT-G, a Report on Institutional Compliance Status Report for the Three Months ended June 30, 2017, and Annual Plan for FY2018 – UH System.

Mr. Guyton stated this report referred to the Institutional Compliance Status Report for the three (3) months ended June 30, 2017, and each Institution's Annual Compliance Plan for FY2018. This report listed activities for the three (3) months ending June 30, 2017 which included risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports. On the first page of this report, Internal Auditing ("IA") had 47 Hot-Line Reports received during this three (3) month timeframe. These reports were allegations of sexual

harassment and misconduct, other types of employee misconduct, non-compliance with Human Resources, Academic and Administrative policies, FERPA violations, fraud, and safety concerns. There were 29 unresolved reports as of June 30, 2017; and as of August 24, 2017, there were 12 unresolved reports.

At the completion of FY2017, 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 next Audit & Compliance Committee meeting held in November 2017. During September 2017, the Chancellor will send out her annual notice to all UH System employees to report non-compliance, fraud and sexual misconduct which also notifies every person of the anonymous reporting mechanism. Since a company bought the MySafeCampus System this past year, we plan to convert to the system of the acquiring corporation on September 1, 2017. The Chancellor's notification to all UH System employees will also include a comment about the new Anonymous Reporting System. In addition, all Presidents will notify their respective institutions of this change in the reporting system as well.

Mr. Guyton also pointed out that the first paragraph under the UH System section of the report referred to new laws and regulations. There were numerous bills enacted in the recent Texas Legislature that affected higher education, including an additional mandate for the Internal Auditing Department to conduct an audit of benefits proportionality by fund for FY2015 through FY2017. IA had completed a similar audit for a different timeframe last year. Mr. Guyton asked Ms. Cornell to comment on some of the new legislation and below is a brief summary of her remarks.

Ms. Cornell mentioned that at the Board meeting being held later in the day, Mr. Jason Smith, Vice Chancellor for Governmental and Community Relations would be presenting an update regarding the 85<sup>th</sup> Legislative Session and the new laws to be enacted. She stated that many of the edits that were being made to the Board's bylaws and policies were due to these recent changes. The university was also in the middle of reviewing their contracting policies in the midst of updating these polices so everything should be good.

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

At 10:45 a.m., Regent Welder moved 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 3 of the committee's agenda.

### **Executive Session:**

Regent Welder reconvened the meeting in open session at 11:18 a.m. and stated the Board had met in Executive Session and discussed legal and IT matters. There was no action taken by the Board in Executive Session.

There being no further business to come before the committee, this meeting was adjourned at 11:21 a.m.

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Others Present:

Renu Khator  
Jim McShan  
Paula Myrick Short  
Dona Cornell  
Amr Elnashai  
Eloise Dunn Brice  
Richard Walker  
Mike Johnson  
Ira A. Blake  
Raymond V. Morgan  
Juan Sánchez Muñoz  
Kate Regan  
Ray Hale  
Randy Wong  
Mara Affre  
Jon Aldrich  
Don Price  
Matt Castillo  
Marquette Hobbs

Don Guyton  
Raymond Bartlett  
Sandra Dahlke  
Mike Britt  
Karin Livingston  
Dan Maxwell  
Mike Glisson  
Sabrina Hassumani  
Ed Hugetz  
Glen Houston  
Tony Moreno  
David Jackson  
Eric Porter  
Isimeme Emafor  
Tiffany Melchers  
Phil Booth  
Nader Ibrahimim  
Brian Thomas  
Brenda Robles

Russ Hoskens  
Connie Applebach  
Oscar Dubernig  
Ray Raulerson  
Jean Carr  
Traynor Swanson  
Eric Wright  
Mary Ann Ottinger  
David Oliver  
Mike Rosen  
Lynn Mohr  
Dia Mobe  
Tamara Davis  
Brandee O'Neal  
Shannon Harrison  
Joe Brueggman  
Iggy Harrison  
Macie Kelly  
Gerry Mathisen