

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

Thursday, November 16, 2017 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 10:05 a.m. on Thursday, November 16, 2017 at the University of Houston-Downtown, Girard Street Building, Third Floor, Milam and Travis Rooms, Welcome Center, One Main Street, Houston, Texas, with the following members participating:

ATTENDANCE –

<u>Present</u>	<u>Non-Member(s) Present</u>
Roger F. Welder, Chair	Spencer D. Armour, III, Regent
Peter K. Taaffe, Vice Chair	Beth Madison, Regent
Durga D. Agrawal, Member	Gerald W. McElvy, Regent
Paula M. Mendoza, Member	Welcome W. Wilson, Jr., Regent
Tilman J. Fertitta, Ex Officio	Neelesh C. Mutyala, Student Regent Non-voting

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 10:05 a.m. He stated the committee would be presented nine (9) items, all of which were 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 Agrawal, seconded by Regent Mendoza, and by a unanimous vote of the regents in attendance, the following minutes from the meeting listed below was approved:

- August 24, 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 stated if anyone had any questions during his presentations to please let him know.

AGENDA ITEMS

Mr. Guyton began his remarks and stated there were no open points from the August 24, 2017 committee meeting.

The first agenda item introduced by Mr. Guyton was Item C, a Report on Hurricane Harvey after Action Review – Executive Summary – University of Houston System. Mr. Guyton stated this item referred to a Report on Hurricane Harvey after Action Review – Executive Summary. This Executive Summary enumerates what worked well and what needed improvement going forward in facing such events. He asked Mr. Jim McShan, Senior Vice Chancellor for Administration and Finance to present this report to the committee and below is a brief summary of Mr. McShan's remarks.

- An evaluation had been conducted by each System institution following Hurricane Harvey which focused on strengths and areas of improvement.
- The common strength across the UH System was the communication. Communication between the internal and external users to their respective campus communities (students, faculty and staff) was outstanding; and across each institution in the UH System, the internal communication and coordination to deal with events as they developed was outstanding as well.
- A common area of improvement across the UH System was the need for enhancements to various emergency plans and procedures.
- It was determined that the next steps for each of the campuses was to determine solutions and implement corrective actions to enhance preparedness and build upon lessons learned during Hurricane Harvey. Ms. Kelly Boysen, Director of Emergency Management will be working with each of the System campuses to develop plans for their respective institutions.
- Several examples were shared from each of the System institutions outlining what had occurred and the actions taken and/or needed to be taken in the future. A brief discussion followed.

Regent Welder thanked all UH/UHS staff for their outstanding job during this difficult time; and he stated Victoria and their community certainly did appreciate everything that had been done during this event to relocate their students to the UH campus.

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

Mr. Guyton moved to the next agenda item, Item D, the Report on Institutional Compliance Status Report for the Three Months Ended September 30, 2017 – University of Houston System. This report referred to the Institutional Compliance Status Report for the Three Months Ended September 30, 2017. This report listed activities which included risk assessments, compliance audits, compliance committee meetings, risk mitigation, and hot-line reports. Mr. Guyton stated that with respect to the hot-line reports, the Chancellor had recently sent out an email to the UH System community to report instances of non-compliance and she referred to the University's Anonymous Reporting Mechanism which had recently been upgraded.

The Institutional Compliance Status Report summarized the information provided by each institution for their compliance functions. Mr. Guyton stated under the UH System section, new Texas laws affecting higher education had been added and he asked Ms. Dona Cornell, Vice Chancellor for Legal Affairs and General Counsel to brief the committee on these new laws.

Ms. Cornell briefed the committee on several laws that had been passed this past Legislative Session. Senate Bill 4 was passed and has caused a great deal of anxiety for many of our students. There are still legal challenges pending; and the university has been managing this as well as they possibly can. Senate Bill 533 cleaned up some of those contracting policies from the last session – contracting laws and kind of cleaned up some of those unintended consequences and the university has made the necessary adjustments. There were other laws that were passed with regard to how someone reports sexual assault. Ms. Cornell stated that the university already had those in place and she felt that what we had already done was state-of-the-art in that regard. A bill was also passed relating to sexual offenders living on campus and campus housing prohibiting that; and of course, that was something that we hadn't had an issue with because we do not do that currently. Lastly, mental health resources and putting those on the institution's website. The way the law reads, said Ms. Cornell it has to be on a prominent place on your home page. The university did have all of that posted in various areas on the website; but mental health has been a very important issue for the campus community and for the students in particular, so that is now on the home pages on each of the System's campuses.

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

Mr. Guyton moved to the next item listed on the committee agenda Item E, a Report on Internal Audit Briefing Booklet including Audit Activity Outline/Audit Plan Status, Internal Audit Reports – 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. This outline indicates that Internal Audit (“IA”) prepared eight (8) Internal Audit Reports since the August 24, 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 a review of the Board of Regents’ and the Chancellor/President’s Office Travel and Entertainment Expenditures; IA’s Annual Non-Compliance Report; review of the University of Houston’s (“UH”) and the University of Houston-Victoria’s (“UHV”) Student Housing; IA’s review of General Accounting at all institutions; IA’s Reports on Construction and Other Contracts Requiring Board of Regents’ Approval; and IA’s 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.

Audit Report No. 2018-01 was IA’s follow-up report and addressed the status of 31 action items in 17 Individual Audit Reports. IA verified that 14 of the action items had been implemented and 17 partially implemented. Updated management responses had been obtained on the partially implemented action items. IA had three (3) high risk items in this report and two (2)

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items had not been implemented. One (1) of these items related to quality control and customer feedback in the construction area and this process should be fully implemented by September 2018. The other item related to the IT Security Program at the University of Houston-Clear Lake and it should be implemented by March 2018.

Audit Report No. 2018-02 was IA's Report on 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 UH System was complying with its policies and procedures and state statutes, particularly the Texas Education Code in selecting its contractors for its major construction projects and other contracts requiring Board of Regents' approval. This report covered the activity from July 1, 2017 through September 30, 2017. Appendix 1 of this report indicated the scope of the Internal Audit Review. Mr. Guyton pointed out that IA had performed audit procedures on 10 of the projects listed as indicated in this report.

Audit Report No. 2018-04 was a compilation of areas of non-compliance for FY2017 for all of IA's Departmental Reviews. This report will help management take action to address repetitive instances of non-compliance. These actions may include modifying its current online training programs or provide additional training.

Audit Report No. 2018-05 and Audit Report No. 2018-06 were IA's Annual Review of Travel and Entertainment Expenditures of the Chancellor/President and members of the Board of Regents. In IA's opinion, all expenditures were appropriately documented and allowable under University policies.

Audit Report No. 2018-03 and Audit Report No. 2018-08 were IA's Reports on UHV and UH Student Housing. Both institutions need to work on their Deferred Maintenance Plans in these areas and UHV was working with UH to implement policies and procedures and a Residence Halls Management Information System. There were no significant issues noted in these reviews.

Audit Report No. 2018-07 was IA's Review of General Accounting at all institutions and there were no significant issues noted in this report.

Referring back to the Activity Outline as noted in Section 1, Item 2 and Item 3 of the outline, Mr. Guyton stated 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 2018.

As noted on Item 4, IA had various Special Projects in Progress. FEMA was still conducting audits of UH's reimbursements for Hurricane Ike. The State Auditor's Office ("SAO") has started its annual statewide audit and UH's Federal Financial Aid Programs have been included in the scope of this review. SAO's report should be issued during the February-March 2018 timeframe. IA's Annual External Audit Engagements of Endowments, Charter School, Public Media, Athletics and Cancer Prevention Research Institute Grants have also been started. IA

also has an External Review of UH's FY2017 Financial Statements as part of their 10-year accreditation review with SACCS which should begin shortly.

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 next item presented by Mr. Guyton was Item F, a Report on Ethics and Conflict of Interest Policies of the Board of Regents and each of the University of Houston System Campuses, Fiscal Year 2017 – UH System.

Mr. Guyton stated this report referred to the Ethics and Conflicts of Interest Policies of the Board and each of the Universities. Item No. 23 in the Audit Committee Charter and Checklist requires an Annual Review of these University policies to ensure that these policies were in place at all levels. Not only are these policies very important for all institutions, they were also required in order to have effective compliance programs and some federal agencies such as NSF, NIH, Department of Agriculture, and the Department of Energy require Conflicts of Interest Policies as part of the terms and conditions of awards. IA had included a summary of the policies and the changes to the policies since they had last been reviewed by the Audit and Compliance Committee in November 2016. There were no policy changes of any significant substance. All of the changes referred to in the summary had been marked for changes in these policies.

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

Mr. Guyton moved to the next item listed on the agenda, Item G, a Report on Annual Fraud Prevention and Awareness Report, Fiscal Year 2017 – UH System. This report referred to the Annual Fraud Prevention and Awareness Report. Mr. Guyton stated the Audit Committee Planner, Item 5.05, requires the Committee to evaluate management's identification of fraud risks, the implementation of anti-fraud prevention and detection measures, and the creation of the appropriate "tone at the top" by reviewing an annual report which summarized the fraud risk analysis and related risk mitigation strategies. This report also satisfied one (1) of the requirements of Governor Perry's Executive Order RP-36 relating to preventing, detecting and eliminating fraud, waste and abuse. This report was a compilation of each University's comments on the status of their Fraud Prevention and Awareness Programs. Mr. Guyton stated the key points of the report and the related page numbers in the report were listed on the agenda coversheet for reference.

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

Following the presentation of this item, Mr. Guyton presented Item H, a Report on Identity Theft Prevention Program – Executive Summary, Fiscal Year 2017 – UH System. Mr. Guyton stated this report referred to the Executive Summary of the UH System's Identity Theft Prevention Program. The Board of Regents' Policy – 42.02, Identity Theft Prevention Program, requires the System-wide compliance officer annually to prepare an Executive Summary of all activities of the Identity Theft Prevention Programs of the component institutions. This Executive Summary

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described the progress that each institution had made in establishing and implementing their programs.

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

Mr. Guyton moved to the next item listed on the committee's agenda, Item I, a Report on Annual Procurement Report, Fiscal Year 2017 – UH System, and stated this report referred to the Annual Procurement Report of the UH System. Board of Regents' Policy – 55.01.4, requires that an Annual Report be submitted to the Board listing all payments for professional or consulting services during the previous fiscal year to a single entity from System-wide sources greater than \$250,000; for all payments for construction, equipment, goods and service contracts during the previous fiscal year from System-wide sources to a single entity that exceeded \$1,000,000; and all contracts that require enhanced contract or performance monitoring under several sections of the Texas Government Code. A listing of new contracts for FY2017 and contracts executed prior to FY2017 that still require enhanced monitoring because they were still ongoing were also listed in the report. The Internal Auditing Department reviewed the methodology for compiling the report, including the procedures and criteria used to create the report. In IA's opinion, the report's preparation methodology appeared to be reasonable and the report satisfied the annual reporting requirement for procurement activity.

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

Item J, a Report on University of Houston System, Internal Auditing Department – Annual Report, Fiscal Year 2017 – UH System, was the next item presented by Mr. Guyton to the committee. Mr. Guyton stated this report referred to the UH System Internal Auditing Department Annual Report for FY2017; and this report is required by the Texas Government Code. The State Auditor's Office prescribed the format of this report which was required to be distributed to the Governor's Office, State Auditor's Office, Legislative Budget Board, Sunset Advisory Commission, members of the Board of Regents and the Chancellor. This was a comprehensive report on the activities of the IA Department including an Executive Summary, a comparison of budget to actual, a Report on the Peer Review of the IA Department which is conducted every three (3) years, and various other information items as prescribed by the State Auditor's Office.

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

The final item listed on the agenda was Item K, a Report on Anonymous Reporting Mechanism, Summary Report, Fiscal Year 2017 – UH System, and Mr. Guyton stated this report referred to the Anonymous Reporting Mechanism, Summary Report – UH System. This report summarized the receipt of anonymous reports and their disposition for FY2017. IA had received 147 reports through the MySafeCampus Reporting System; and in addition, IA received 11 additional reports through other mechanisms, including the State Auditor's Office. Of the 145 MySafeCampus Reports resolved during the fiscal year, 36 resulted in disciplinary actions.

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

At 10:37 a.m., Regent Welder moved to Section II listed on the agenda, the Executive Session. Regent Welder stated that the committee would go into Executive Session pursuant to the sections of the Texas Government Code listed on page 2 of the committee's agenda.

Executive Session:

Regent Welder reconvened the meeting in open session at 10:56 a.m. and stated the Board had met in Executive Session and discussed personnel 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 10:57 a.m.

Others Present:

Renu Khator
Jim McShan
Paula Myrick Short
Dona Cornell
Amr Elnashai
Eloise Dunn Brice
Lisa Holdeman
Jason Smith
Richard Walker
Mike Johnson
Ira A. Blake
Raymond V. Morgan
Juan Sánchez Muñoz
Mike Emery
Jean Carr
Brian Thomas
Gerry Mathisen

Don Guyton
Raymond Bartlett
Sandra Dahlke
Mary Ann Ottinger
Karin Livingston
Gaden Luce
Stephen Spann
Courtney Hunt
David Oliver
Ed Hugetz
David Bradley
Tomikia LeGrande
Mara Alfre
Nadar Ibrahim
Phil Booth
Marquette Hobbs

Russ Hoskens
Connie Applebach
Trinity Delafance
Joe Brueggman
Mike Rosen
Ryan Harrison
Glen Houston
Randy Wong
Sabrina Hassumani
Lindsey Ellis
Matt Castello
Wayne Beran
Hassoin Shahrokhi
Jon Aldrich
Mike Britt
Brenda Robles