

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

Thursday, November 15, 2018 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 10:09 a.m. on Thursday, November 15, 2018, at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

Members Present

Peter K. Taaffe, Chair
Durga D. Agrawal, Vice Chair
Gerald W. McElvy, Member
Doug H. Brooks, Member
Steve I. Chazen, Member
Tilman J. Fertitta, Ex Officio Member

Non-Member(s) Present

Beth Madison, Regent
Paula M. Mendoza, Regent
Jack B. Moore, Regent
Andrew Z. Teoh, 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, Peter K. Taaffe called the meeting to order at 10:09 a.m. Regent Taaffe stated the committee would be presented one (1) approval item and nine (9) agenda items all presented for information only.

Regent Taaffe stated the first order of business would be Item B, the approval of the minutes from the August 23, 2018, Audit and Compliance Committee meeting listed on the committee's agenda.

Action Items:

1. Approval of Minutes – Item B

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

- August 23, 2018, Audit and Compliance Committee Meeting

AGENDA ITEMS

Following the approval of the minutes, Regent Taaffe stated Mr. Guyton would introduce all of the remaining items listed on the agenda.

Mr. Guyton began his remarks and stated that there were no open points from the August 23, 2018 committee meeting.

Mr. Guyton stated the first information item to be presented to the committee would be Item C, a Report on University of Houston System Institutional Compliance Status Report for the three months ended September 30, 2018 – University of Houston System. Mr. Guyton stated this item referred to the Institutional Compliance Status Report for the three (3) months ended September 30, 2018, and listed activities which included risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports.

The Institutional Compliance Status Report summarizes the information provided by each institution for their compliance functions.

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

The next item listed on the agenda was Item D, a Report on University of Houston System, Internal Audit Briefing Booklet including Audit Activity Outline / Audit Plan Status, Internal Audit Reports – University of Houston System. Mr. Guyton presented this item to the committee and stated this item referred to the Internal Audit Briefing Booklet. The first section in the Briefing Booklet contained an activity outline which included seven (7) Internal Audit Reports prepared by Internal Auditing (IA) since the August 23, 2018, Audit and Compliance Committee meeting. Also included in this outline were various scheduled Audits in the Fieldwork in Progress Phase or in the Planning Phase. These audits were included in the Board-approved Internal Audit Plan for FY2018 and FY2019.

Mr. Guyton stated in Item 4, Internal Auditing had various Special Projects in Progress which included the FEMA audits, the State Comptroller Post-Payment audits of the University of Houston (UH) and University of Houston-Clear Lake (UHCL), and the State Auditor's follow-up work on the FY2017 audit. The Department of Education had recently issued their Audit Report on the UH Federal Financial Aid Programs; and UH has provided its responses to their findings and this should be issued in final form shortly.

It was noted that behind the Activity Outline was the Audit Plan Status. The highlighted areas showed that they had been completed and the footnotes had indicated the status on the other areas.

The Executive Summaries of the Internal Audit Reports were discussed in the Briefing Booklet. The Action Plans for two (2) 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 Departmental Reviews of the UH College of Natural Sciences and Mathematics and the UH Division of Research; Reviews of the Board of Regents and Chancellor/President's Office Travel and Entertainment; and Internal Audit's Annual Non-Compliance Report. Internal Auditing's Follow-up Status Report and IA's 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, Planning and Policy; the Legislative Budget Board; the Sunset Advisory Committee; and the State Auditor's Office, as required by the Texas Government Code.

Audit Report No. 2019-01 was IA's Follow-up Report and addressed the status of 68 action items in 17 Individual Audit Reports. Internal Audit verified that 37 of the action items had been implemented, 30 partially implemented, and one (1) not implemented. Updated management responses were obtained on the partially implemented and not implemented action items. Internal Audit had two (2) high risk items in this report that were related to Facilities, Planning and Construction (FCMP) and the UH Cullen College of Engineering, and they have both been implemented. It was noted that at the last Audit and Compliance Committee meeting held on August 23, 2018, IA had changed their protocol for action items that had not been completed after three (3) attempts whereby the responsible parties would be requested to attend the Audit and Compliance Committee meeting and explain why they were unable to complete the item.

Since this change was implemented, there was one (1) item in this report that falls into this category which was related to Emergency Management at the University of Houston-Downtown. Mr. Guyton introduced Mr. David Bradley, Chief Financial Officer at UH-Downtown to come before the committee for the explanation on this item.

Prior to Mr. Bradley's explanation, Regent Taaffe asked Mr. Guyton to recap for the committee what the policy was once an issue had been identified and placed on the matrix, then at what point does IA ask management to give a presentation as to the status of the item. Mr. Guyton said that the policy was changed to three (3) attempts at the last Board meeting at the request of the Chancellor. Some of the items listed had been on the list for some time; but have been cleared prior to this meeting with the exception of the UH-Downtown item. Following Mr. Guyton's comments, Regent Taaffe asked Mr. Bradley to present his explanation to the committee and below is brief summary of his remarks.

Mr. Bradley stated that as part of an audit UH-Downtown was asked to update their Continuity of Operations Plan which they did working with the State Office of Risk Management. As part of this audit, there was a follow-up response which UHD was to identify the COUP liaisons from the various departments who would serve as the key personnel for flushing out the plan; and then once those liaisons were identified, UHD was to put in place a training program for those individuals identified. The plan was completed, but in terms of following-up further, it did not occur. Mr. Bradley stated that this was his responsibility to do and it did not get done. Mr. Bradley has been working with Mr. Guyton and a plan was now in place. He said that he was also working with other Vice Presidents at UHD and 125 individuals have now been identified as liaisons and those individuals will receive the appropriate training required. This action item will be completed by the end of January 2019.

Following Mr. Bradley's comments, Regent Taaffe asked Mr. Guyton that when Mr. Bradley has finished this task and Internal Audit was assured that this had been completed, he was to report to him the results prior to the next Audit and Compliance Committee meeting to be held in February 2019.

Mr. Guyton also mentioned to Regent Taaffe that they recently had a conversation about changing the protocol that once an item had been placed on the matrix, the three (3) attempts rule would be changed to two (2) attempts at which time management would need to be available to give an explanation on the item; and was it still Regent Taaffe's intention to make this change

going forward. Regent Taaffe reiterated “yes” this was his intention and it would begin following this committee meeting.

A brief discussion followed regarding an open item concerning reconciling the Advancement System to an Accounting System. These are two (2) different types of accounting systems. A firm has been engaged to assist with putting together a process to have this completed. This is a long-term process which could take up to two (2) years to complete. Mr. Guyton stated there was a need to switch to this new system once the campaign was finished.

Mr. Guyton moved on and said that the majority of the items that were partially implemented had been IT-related in the areas of Cybersecurity and UH Building Access. Management has indicated that this will help ensure that these items would be more timely implemented.

Audit Report No. 2019-02 was the Internal Audit Report on Construction and Other Contracts Requiring Board Approval. This is a standing report in their Briefing Booklet, similar to their Follow-up Status Report. The objective of IA’s review was to determine whether the University of Houston 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, 2018 through September 30, 2018. Appendix 1 of this report indicated the scope of the Internal Audit Review. As noted in this appendix, Internal Audit had performed audit procedures on 13 of the projects listed; 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. 2019-03 was a compilation of areas of non-compliance for FY2018 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 Reports No. 2019-04 and No.2019-05 were Internal Audit Departmental Reviews on the UH College of Natural Sciences and Mathematics and the UH Division of Research. There were no significant items noted in either of these reviews. Mr. Guyton introduced Dr. Dan Wells, Dean of the College of Natural Sciences and Mathematics and his Chief Business Administrator, Fred McGhee, who were present at the meeting and available to answer any questions.

Audit Reports No. 2019-06 and No. 2019-07 were IA’s Annual Reviews of the Travel and Entertainment Expenditures of the Chancellor / President and members of the Board of Regents. It was the opinion of Internal Auditing that all expenditures were appropriately documented and allowable under University policies.

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

Mr. Guyton moved to Item E, a Report on University of Houston, Ethics and Conflict of Interest Policies of the Board of Regents and each of the Universities, Fiscal Year 2018 – University of Houston System, and stated that this referred to the Ethics and Conflict 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 policies to ensure that these policies were in place at all levels. Not only are these policies very important for all institutions, they are also required in order to have effective compliance programs and some federal agencies such as required in order to have effective compliance programs and some federal agencies such as National Science Foundation (NSF), National Institutes of Health (NIH), Department of Agriculture and the Department of Energy require Conflicts of Interest policies as part of the terms and conditions of awards. Internal Audit had included a summary of the policies and the changes to the policies since they were last reviewed by the Audit and Compliance Committee in November 2017. There were no policy changes of any significant substance; and all of the changes referred to in the summary were marked for changes in these policies.

Regent Taaffe gave a brief refresher and commented that there was nothing in these revisions but it did bring up the issue that the Board had discussed a year or so ago, that it was important that all Board members get all of their for-profit, non-profit, formal and informal boards' information to Ms. Cornell, the General Counsel, so whenever Conflicts of Interest were brought to light, they have all of the necessary documentation on the regents to make certain that we, as regents, were always in compliance.

Ms. Cornell stated that a Conflict of Interest Certification Form was completed annually by all regents. After further review of this document, it was noted by Ms. Cornell that this form will need to be tweaked and some updates made to this document. Currently, this document refers to boards that are internal advisory boards and the like that are all internal to the university; and the issue of external boards was not addressed in this document. The fact that regents may also be on external boards that could have an impact on situations that may be happening here at the university was important and should be noted.

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

Mr. Guyton presented the next item listed on the agenda, Item F, the Report on University of Houston System, Annual Fraud Prevention and Awareness Report, Fiscal Year 2018 – University of Houston System. This item referred to the Annual Fraud Prevention and Awareness Report. The Audit Committee Planner, Item 5.05, requires the Committee to evaluate management's identification of fraud risks, the implementation of antifraud prevention and detection measures, and the creation of the appropriate "tone at the top" by reviewing an annual report which summarizes the fraud risk analyses and related risk mitigation strategies. This report also satisfies one (1) of the requirements of Governor Perry's Executive Order RP-36 related 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 Program. The key points of the report and the related page numbers in the report were listed on the agenda sheet for reference.

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

The next item presented by Mr. Guyton was Item G, a Report on University of Houston System, Identity Theft Prevention Program – Executive Summary, Fiscal Year 2018 – University of Houston System. Mr. Guyton stated that this item referred to the Executive Summary of the

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University of Houston System's Identity Theft Prevention Program. The Board of Regents Policy 42.02, Identity Theft Prevention Program, requires the system-wide compliance officer to annually prepare an Executive Summary of all activities of the Identity Theft Prevention Programs of the component institutions. This Executive Summary described the progress that each institution had made in establishing and implementing their programs.

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

Item H, a Report on University of Houston System, Annual Procurement Report, Fiscal Year 2018 – University of Houston System, was the next item presented to the committee. Mr. Guyton stated that this item referred to the Annual Procurement Report of the University of Houston 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 (Appendix A); 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 (Appendix B); and all contracts that require enhanced contract or performance monitoring under several sections of the Texas Government Code (Appendix C). The Internal Auditing Department reviewed the methodology for compiling this report, which included the procedures and criteria used to create the report. In their opinion, the report 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 no committee action was required.

Mr. Guyton moved to the next item listed on the agenda, Item I, a Report on University of Houston System, Internal Auditing Department – Annual Report, Fiscal Year 2018 – University of Houston System. This item referred to the University of Houston System Internal Auditing Department Annual Report for FY2018. Mr. Guyton introduced Mr. Russ Hoskens, Executive Director of Internal Auditing, who presented this report. Below is a brief summary of Mr. Hoskens' remarks.

Mr. Hoskens stated this report was required by the Texas Government Code. The State Auditor's Office prescribes 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 Internal Auditing Department which included an Executive Summary, a Comparison of Budget to Actual, a Report on the Peer Review of the Internal Audit Department which is conducted every three (3) years, and various other informational items.

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

Following this presentation, Mr. Guyton moved to Item J, a Report on University of Houston System, Overview of Fraud and Non-Compliance Reporting Mechanism, Presentation – University of Houston System. Mr. Guyton stated this item referred to an overview presentation on the University of Houston System's anonymous reporting mechanism, and introduced Ms. Susan Koch, Chief Compliance Officer, who gave this presentation to the Board. Below is a brief summary of Ms. Koch's remarks.

Ms. Koch stated this overview would be a high level presentation of the UH System's Anonymous Reporting Hotline, and is one of the elements of an effective Compliance Program that is under the U.S. Federal Sentencing Guidelines. There are a number of entry points that anyone who wants to make a Hotline Report, whether it be a staff and/or faculty member, a student, a visitor, etc. may do so, should there be fraud or non-compliance and wants to bring it to our attention.

There are a number of steps taken in this process as follows:

1. At the bottom of each of the UH System institutions' webpages, there is a link that anyone may click to make a report.
2. Once this step has been taken, there are two (2) ways of making a report: (a) online and/or (b) by phone. Most reports come to attention through the websites but some reports are received via phone calls. In either case, all reports are handled either way.
3. If an individual should opt to sign-in into the system, that individual may still take advantage of anonymous reporting but this step does enable the person to sign-in again in order to keep track of their report.
4. The next step for the individual is to choose one (1) of the categories listed which then best describes the nature of their report. Once they click on the appropriate category, they will then complete the various questions under that particular category.
5. There are several additional pages to complete which one might be able to identify the department, individual(s), date, time, location, college, upload files, documents, etc., and submit as much information as one deems necessary.
6. An individual may opt to stay totally anonymous to both the institution as well as the outside vendor or the individual may opt to stay anonymous to the institution but not to Convercent. It is important to note that none of the IP addresses or the report is on any UH System institution server. It remains completely anonymous to the extent that the reporter wants to keep it that way.
7. Convercent then sends an email to the Triage Team which is comprised of the General Counsel, Dona Cornell, Chief Audit Executive, Don Guyton, and the Chief Compliance Officer, Susan Koch. The team then clicks on the report to see what was filed by the individual.
8. Once the report has been received, the following steps are then taken:
 - (a) Triage Team receives notice of new report and reviews;
 - (b) Triage Team acknowledges report; may ask follow-up questions;
 - (c) Determines appropriate party to handle investigation;
 - (d) Investigation is conducted and once concluded, investigator submits the report to Triage Team;
 - (e) Triage Team reviews the findings and determines whether the solution/findings are satisfactory and if the report can be closed; and
 - (f) Triage Team responds to reporter with results of the investigation and closes the report.

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

The last agenda item presented to the committee was Item J, a Report on University of Houston System, Fraud and Non-Compliance Reports, Summary Report, Fiscal Year 2018 – University of Houston System. Mr. Guyton stated this report referred to the Report on Anonymous Reporting

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Mechanism, Summary Report – University of Houston System. During the Fall of each year, the Chancellor sends an email reminding the entire UH System community of the vital part of the University’s commitment to provide an environment free from discrimination, misconduct, fraudulent activity, and general non-conformance with our policies and rules. This report summarizes the receipt of these anonymous reports and their disposition for FY2018. As noted from the report, the University of Houston System received 135 reports through the Convercent Anonymous Reporting System. The report lists the types of reports received (harassment / discrimination, non-compliance, HR-type reports, IT-type reports, fraud, safety concerns and various miscellaneous reports. In addition, the University of Houston System received two (2) additional reports through other mechanisms, including the State Auditor’s Office. Of the 126 reports resolved during the year, 33 resulted in disciplinary actions.

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

Following Mr. Guyton’s presentation on this item, Regent Taaffe commended Mr. Guyton and his team for their hard work.

At 10:50 a.m., Regent Taaffe moved to Section II listed on the agenda, the Executive Session. Regent Taaffe 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 Taaffe reconvened the committee meeting in open session at 11:38 a.m. and stated the Board had met in Executive Session and discussed various matters with the Chief Audit Executive. 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 11:39 a.m.

Others Present:

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|--------------------|-------------------|--------------------------|
| Renu Khator | Don Guyton | Russ Hoskens |
| Jim McShan | Raymond Bartlett | Connie Applebach |
| Paula Myrick Short | Eric Herrera | Mike Emery |
| Dona Cornell | Jeff Palmer | Susan Koch |
| Eloise Dunn Brice | Ed Hugetz | Dan Maxwell |
| Richard Walker | David Bradley | Valerie Coleman-Ferguson |
| Mike Johnson | Karin Livingston | Fred McGhee |
| Ira A. Blake | Chris Rodney | Tony Moreno |
| Juan Sánchez Muñoz | Tamara Davis | Randy Wong |
| Robert Glenn | Mark Denney | Wayne Beran |
| Lisa Holdeman | David Oliver | Deidra Garcia |
| Nader Ibrahim | Sabrina Hassumani | Dan Wells |

Others Present (cont'd):

Randy Wong

Ben Garza

Jon Aldrich

Mark Clarke

Matthew Castello

Shannon Harrison

Marquette Hobbs

Mike Atterbury

Eric Porter

Dia Mabe

Jarmon Dorsey

Macie Kelly

Don Price

Gerry Mathisen

Kevin Dorsy

Phil Booth

Brandee O'Neal

Brian Thomas

Joe Brueggman

Brenda Robles