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

<u>Thursday, November 19, 2015</u> – 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, November 19, 2015 at the Hilton University of Houston, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

<u>Present</u>	<u>Member(s) Absent</u>
Roger F. Welder, Chair	Peter K. Taaffe, Vice Chair
Paula M. Mendoza, Member	Durga D. Agrawal, Member
*Welcome W. Wilson, Jr., Regent	Tilman J. Fertitta, Ex Officio

<u>Non-Members Present:</u>
Beth Madison, Regent
Gerald W. McElvy, 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.

*Due to a quorum issue, Chair of the Audit and Compliance Committee, Regent Roger Welder, appointed Regent Welcome W. Wilson, Jr. as a temporary member of this committee for today's meeting only.

Regent Welder stated the first order of business for the committee was the approval of the minutes from the May 21, 2015, Audit and Compliance Committee meeting.

Action Item:

1. Approval of Minutes – Item B

   The first action item presented to the committee was the approval of minutes from the May 21, 2015, Audit and Compliance Committee meeting.

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

   ▪ May 21, 2015, Audit and Compliance Committee Meeting

Following the approval of the minutes, Regent Welder stated the committee would be presented 11 agenda items all of which would be for information only; and asked Mr. Don Guyton, Chief Audit Executive to present these items to the committee.

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AGENDA ITEMS

Information Items:

Mr. Guyton stated that there was one (1) open point from the August 20, 2015, Audit and Compliance Committee meeting. Regent Mendoza had asked for information about Historically Underutilized Businesses ("HUB") for UH-Clear Lake, UH-Downtown and UH-Victoria, similar to the type of information presented during the meeting about the University of Houston. This information has been provided to Regent Mendoza and also available in the Board office.

The first agenda item presented by Mr. Guyton was Item-C, a Report on External Audit Reports – Texas Comptroller of Public Accounts Post Payment Audit of the University of Houston-Downtown, FY2014 – UH System. Mr. Guyton stated this item referred to the External Audit Report, Texas Comptroller of Public Accounts Post Payment Audit of the University of Houston-Downtown. The scope of this audit included a sample of payroll, purchase and grant transactions that processed through the Uniform Statewide Accounting System during the period beginning September 1, 2013 through August 31, 2014 to determine compliance with applicable state laws. The audit identified incorrect payments of accrued vacation time, incomplete reporting of payroll deductions, purchase overpayments, and control weaknesses over expenditure processing. Management implemented action plans which addressed the Comptroller's concerns. The State Comptroller's Office performs post-payment audits of each institution approximately every two (2) to three (3) years.

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

Mr. Guyton moved to the next agenda item, Item D, a Report on Cybersecurity – What the Board of Regents Need to Ask – UH System. This report referred to a Report on Cybersecurity – What the Board of Regents Need to Ask. In 2014, the Institute of Internal Auditors Research Foundation published a Research Report on Cybersecurity and Board of Directors' responsibilities. This publication referred to the guiding principles for the Board for Cyber-security published by the National Association of Corporate Directors and it contained six (6) questions that the Board should ask about Cybersecurity.

Mr. Guyton introduced to the committee Dr. Dennis Fouty, UHS/UH Chief Information Officer and Ms. Mary Dickerson, UHS/UH Executive Director, IT Security, and Chief Information Security Officer. Ms. Dickerson provided an overview of the UHS/UH Information Security Program which provided answers to the various questions. Ms. Dickerson holds multiple professional certifications in her field and among them are Chief Information Security Professional and Certified Information Security Manager. Also distributed to the Board was another publication of the Greater Houston Partnership entitled, Cybersecurity and Business Vitality – What Every Houston-Area Business Leader Needs to Know. Ms. Dickerson is on the

Partnership's Cybersecurity Task Force and is on the FBI Infragard Houston Chapter Board of Directors. Below is a brief summary of Ms. Dickerson's remarks.

Ms. Dickerson discussed the five (5) key pillars of our security framework as follows:

1. <u>Security Governance</u> – these are our policies, organizational structure and system relationships. This includes not only our network of information security officers throughout the UH campus and at the component universities, but also our relationships with key System departments such as General Counsel, Internal Audit, Public Safety and Human Resources, forming a very collaborative partnership.

2. <u>Security Strategy</u> – this is our close alignment with the UH strategic principles the Board has defined, such as Institutional Excellence, Accountability and Administrative Efficiency, and of course, Research.

3. <u>Risk Management</u> – this includes our ongoing assessments and mapping of controls to processes, as well as impact assessments for critical university services.

4. <u>Security Standards</u> – these are Federal and industry security standards we utilize to ensure we are following best practices. Some of you might recognize include HIPPA and FERPA. For each of these standards, we assess the scope of our security components, the maturity of our processes and their overall effectiveness.

5. <u>Information Security Metrics</u> – these include our risk/threat indicators reported through university scorecards which provide the ability for checking the effectiveness of our efforts and allowing for continual improvements to the information security program.

Ms. Dickerson pointed out that our top five (5) cyber-risks are in line with other higher education institutions and reflect the diversity of our environment within a constantly evolving landscape.

1. Exposure or damage to sensitive or critical data from compromise of accounts and/or systems;
2. Failure to meet compliance and regulatory requirements (PCI, HIPPA, FERPA, Federal Grant Requirements);
3. Theft of or damage to UH research data and intellectual property;
4. Damage to campus facility physical systems (power HVAC) from attack; and
5. Failure to manage sensitive/critical data on mobile devices (BYOD) and cloud services.

We address these risks in a variety of ways through a combination of technology solutions, robust business practices, and most importantly, through our people.

People are a critical component to the success of any security program and at UH we actively engage our community in supporting us with these efforts. We do this through official UH policies and information available through our websites, as well as through specific training, both initial and ongoing. We also have practices in place to provide real-time notifications to

users of time-sensitive security threats, as well as when changes occur to their individual, personal information. This partnership with our users is a strength within our security program as it is clear that it is everyone's job to participate in the protection of university assets.

Unfortunately, as we know from the physical world, no matter how many locks you put on your doors, someone can still burglarize your home. In the cyber-world, we know that data breaches are possible even with a strong security foundation. So, the question becomes, in the event of a serious breach, do we have a robust response protocol in place? The bottom line is yes. At UHS we have multiple methods of detecting that an incident has occurred, which include 24-hour detection efforts, qualified staff with external resources to properly investigate any suspected breaches and the ability through our network of campus security staff to respond very quickly. As a key component of our protocols, we have established processes in place to engage specialized university departments: the Office of General Counsel, University Marketing and Media Relations, UH Department of Public Safety and others as necessary. We also liaison with local, state and Federal resources to proactively prepare for a variety of cyber-incident scenarios. In fact, a university team consisting of our CIO, Ms. Dickerson, the AVC/AVP for Public Safety and the Office of General Counsel has just returned from a national cybersecurity exercise hosted by the Department of Homeland Security and the FBI to prepare for data breach events.

During Ms. Dickerson's remarks she also provided a powerpoint presentation to the committee which has been filed in the Board office.

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

Mr. Guyton presented Item E, a <u>Report on Institutional Compliance Status Report for the three months ended September 30, 2015 – UH System.</u> This report referred to the Institutional Compliance Status Report for the three (3) months ended September 30, 2015. This report lists activities which included risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports. With respect to the hot-line reports, the Chancellor recently sent out an email to the UH System community to report instances of non-compliance and fraud and this was coupled with her misconduct policy.

Under the UHS section of this report entitled "New Policies and New Laws," the new policies include mandatory background checks for all new employees, a requirement for all employees to use university-provided email accounts for official business, and public safety standards for the operations of police departments and annual crime reporting. The new laws refer to the privacy of the records for an applicant for admission and the requirement to verify identity data for all new hires. The remainder of the Institutional Compliance Status Report summarized the information provided by each institution for their compliance functions.

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

The next item addressed by Mr. Guyton was Item F, a <u>Report regarding the Internal Audit Briefing Booklet including Audit Activity Outline – UH System.</u> Mr. Guyton stated this report referred to the Internal Audit Briefing Booklet. The Briefing Booklet also contains an activity outline and from this outline Internal Audit ("IA") prepared 12 Internal Audit Reports since the

August 20, 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 and included reviews of the Board of Regents' and Chancellor/President's Office Travel and Entertainment; IA's Annual Non-Compliance Report; Departmental Reviews of UH-Victoria's Enrollment Management and Student Affairs, Office of Provost and Division of Administration and Finance, and UH-Clear Lake's School of Human Sciences and Humanities and School of Science and Computer Engineering; reviews of grants made to the University of Houston and UH-Clear Lake by the Joint Admissions Medical Program; IA's reports on Construction and Other Contracts Requiring BOR approval; and follow-up activity. These reports will be submitted to the Governor's Office of Budget and Planning, the Legislative Budget Board, the Sunset Advisory Committee and the State Auditor, as required by the Texas Government Code.   IA's reports on Departmental Reviews contained Management Action Plans and were also included in the Briefing Booklet, along with an overview of all of IA's recommendations.

Audit Report No. 2016-01 was IA's follow-up report and addressed the status of 60 action items in 14 Individual Audit Reports. IA verified that 29 of the action items had been implemented, 16 partially implemented and 15 not implemented. Updated management responses have been obtained on the partially implemented action items; but updated management responses have not been obtained on the not implemented items because all of those items related to deficit fund group balances at the Departmental level and the System policy on this area was revised by eliminating the requirement to clear deficit fund group balances at this level. The requirement is now at the Divisional level. IA had four (4) high risk items in this report and they have all been implemented.

Audit Report No. 2016-02 was IA's report on Construction and Other Contracts Requiring BOR approval. This was a standing report in IA's Briefing Booklet, similar to their follow-up status report. The objective of IA's review was to determine whether the UH System had complied 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 BOR approval. This report covered the activity from July 1, 2015 through September 30, 2015. Appendix 1 of this report indicated the scope of the Internal Audit Review and IA had performed audit procedures on five (5) of the 31 projects that were listed. The dates in red that were listed in this report were dates added since the last report which had been issued in August 2015.

Audit Report No. 2016-03 was a compilation of areas of non-compliance for FY 2015 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 on-line training programs or provide additional training.

Audit Reports No. AR2016-09 and AR2016-10 were IA's annual reviews of Travel and Entertainment Expenditures of the Chancellor/President and members of the Board of Regents. In our opinion all expenditures were appropriately documented and allowable under university policies.

Audit Reports No. AR2016-04 through AR2016-08 were IA's reports on Departmental Reviews at UH-Victoria and UH-Clear Lake. There were no significant issues noted in these reviews and management has already implemented or is in the process of implementing the management action items associated with these reviews.

IA has various scheduled audits in the fieldwork in progress or in the planning phase. These audits are included in the Board-approved Internal Audit Plan for FY2016. IA also has various Special Projects in Progress. FEMA is still in the process of conducting audits of University of Houston's ("UH") reimbursements for Hurricane Ike. The State Auditor's Office ("SAO") has started their Annual State-wide Audit. UH's Federal Financial Aid Programs were included in the scope of this review. SAO's report should be issued during the February – March timeframe. IA's annual External Audit Engagements of Endowments, Charter School, Public Media, Athletics, and Cancer Prevention Research Institute grants have also started. The External Audit Engagement for UH-Downton's SACS review has also started. The Audit Plan Status was also noted and the footnotes indicated the status on the other audit areas which are scheduled to take place in 2016.

Item G, the <u>Report on Ethics and Conflict of Interest Policies of the Board of Regents and each of the University of Houston System Campuses, FY2015 – UH System</u> was the next item presented by Mr. Guyton and referred to the Ethics and Conflicts of Interest Policies of the Board and each of the universities. Item No. 23 in the Audit and Compliance Committee Charter and Checklist requires an annual review of the policies of these universities to ensure that these policies exist. 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 the National Science Foundation ("NSF"), the National Institute of Health ("NIH"), Department of Agriculture, and the Department of Energy require Conflicts of Interest Policies as part of the terms and conditions of their awards. IA 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 2014. The only policy changes were those of the Board of Regents which were completed to comply with the requirements of Senate Bill 20 of the 84th Legislature.

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

Mr. Guyton presented Item H, the <u>Report on Annual Fraud Presentation and Awareness Report, FY2015 – UH System</u> which referred to the Annual Fraud Prevention and Awareness Report. The Audit and Compliance 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 satisfied one of the requirements of Governor Perry's Executive Order RP-36 relating to preventing, detecting and eliminating fraud, waste and abuse. This report is a compilation of each university's comments on the status of their Fraud Prevention and Awareness Programs.

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

Mr. Guyton presented the next item on the agenda, Item I, the Report on Identity Theft Prevention Program for FY2015 – Executive Summary – UH System which 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 to prepare annually an Executive Summary of all activities of the Identity Theft Prevention Programs of each of the component institutions. This Executive Summary describes the progress that each institution has made in establishing and implementing their programs.

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

Mr. Guyton addressed Item J, the Report on Annual Procurement Report FY2015 – UH System which 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 Professional Service and Consulting Contracts to a single entity greater than $250,000 and for all other Procurement (except Investment Agreements) where total compensation from the System-wide sources to a single entity was expected to exceed $1,000,000. The Internal Auditing Department reviewed the methodology for compiling this report, including the procedures and criteria used to create the report. In IA's opinion, the report preparation methodology appeared to be reasonable and the report satisfied the annual reporting requirement for procurement activity.

Although the Board policies are not scheduled for a review until 2017, IA suggested that the Board may want to consider modifying this policy in light of the recent changes to the Board's Contracting Policies to comply with the provisions of Senate Bill 20. Since September 1, 2015, the Board now requires the approval of all contracts greater than $1,000,000 and the Board may now want to change this policy to require this report for all Professional Services and Consulting Contracts to a single entity greater than $250,000 and for all other Procurement (except Investment Agreements) where total compensation from System-wide sources to a single entity was expected to exceed $1,000,000 where such contracts have not previously been approved by the Board of Regents.   A discussion followed.

Mike Glisson, Controller, briefed the committee re the reports the committee was currently receiving for contracts over $1,000,000 is a combination of the contract value that was signed and also payments made to the same vendor, in a year, that exceed $1,000,000. This report could have contracts that are under $1,000,000 and then other payments that are made to the same contractor (vendor), in a year, where the total exceeds $1,000,000; so that was what they were trying to capture in the report the Board currently receives. What the Board is approving now since September 1, 2015, are all contracts that are expected to exceed $1,000,000. So, what the Board would not have if they did away with part of this report that reports a combination of payments and contracts that are over $1,000,000, the Board would not see where the two combined exceed $1,000,000 but the contract does not exceed $1,000,000. There are many different departments at the university and different campuses that do business with the same vendor; and sometimes we have combined contracts and sometimes we do not – sometimes they are separate.

Mr. Glisson stated that there could be a report that focuses on all payments by vendors over $1,000,000; and a report showing $250,000 for professional and consulting services would cover what the Board is wanting in a report. A discussion followed.

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

The next item presented by Mr. Guyton was Item K, the Report on University of Houston System, Internal Auditing Department – Annual Report, FY2015 – University of Houston System. This item referred to the University of Houston System Internal Auditing Department Annual Report for FY 2015. This report is required by the Texas Government Code. The State Auditor's Office prescribes the format of this report which is 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 is a comprehensive report on the activities of the Internal Auditing Department including an Executive Summary, a comparison of budget to actual, a Report on the Peer Review of the Internal Auditing Department which is conducted every three (3) years and various other information items.

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

Mr. Guyton presented the next item, Item L, the Report on Anonymous Reporting Mechanism Summary Report, FY2015, and Overview of Anonymous Reporting Mechanism – University of Houston System. This report referred to the Report on Anonymous Reporting Mechanism, Summary Report – University of Houston System. This report summarizes the receipt of anonymous reports and their disposition for Fiscal Year 2015. As noted in the report, IA received 131 reports through the MySafeCampus Reporting System. In addition, IA received 16 additional reports through other mechanisms, including the State Auditor's Office. Of the 129 MySafeCampus Reports resolved during the year, 26 resulted in disciplinary actions.

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

The last agenda item presented by Mr. Guyton was Item M, the Report on Internal Audit Peer Review 2015 – University of Houston System. Mr. Guyton stated this report referred to the Internal Audit Peer Review. The Internal Auditing Department is required by the Texas Internal Auditing Act to undergo a comprehensive External Peer Review every three (3) years. The Peer Review Team concluded that the Internal Auditing Department generally conforms to the International Standards for the Professional Practice of Internal Auditing and it concurred with the Internal Auditing Department's Internal Self-Assessment. The Peer Review Team recommended a broader use of data analytics for reviewing large sets of data; and IA plans to implement this recommendation. This concluded Mr. Guyton's report.

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

At 11:07 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 11:24 a.m. and stated that the Board had met in Executive Session and 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 11:27 a.m.

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Others Present:

Renu Khator	Mike Glisson	Russ Hoskens
Jim McShan	Sandra Dahlke	Dan Maxwell
Paula Myrick Short	Anita Couch	Jeffrey Cass
Dona Cornell	Charles Holtsclaw	Kenya Ayers
Richard Walker	Pam Muscarello	Dennis Fouty
Don Guyton	Jesse Pisors	Iggy Harrison
William Flores	Nader Ibraham	Matthew Castello
Raymond V. Morgan	Brandon Alexander	Shannon Harrison
William Staples	Katie Brown	Don Price
Mike Johnson	Jon Aldrich	Phil Booth
Sabrina Hassunami	Mary Dickerson	Ed Hugetz
Joe Brueggman	Wayne Beran	Mark Clarke
Marquette Hobbs	Brenda Robles	Gerry Mathisen