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

Thursday, February 28, 2019 – 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, February 28, 2019, at the University of Houston-Clear Lake, Bayou Building, Garden Room, First Floor, 2700 Bay Area Boulevard, Houston, Texas, with the following members participating:

ATTENDANCE –

<table>
<thead>
<tr>
<th>Members Present</th>
<th>Non-Member(s) Present</th>
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<tbody>
<tr>
<td>Peter K. Taaffe, Chair</td>
<td>Beth Madison, Regent</td>
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<tr>
<td>Durga D. Agrawal, Vice Chair</td>
<td>Paula M. Mendoza, Regent</td>
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<tr>
<td>Gerald W. McElvy, Member</td>
<td>Andrew Z. Teoh, Student Regent Non-voting</td>
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<td>Steve I. Chazen, Member</td>
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<tr>
<td>Doug H. Brooks, Member (Teleconference Call)</td>
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<td>Tilman J. Fertitta, Ex Officio Member</td>
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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 10:40 a.m. Regent Taaffe stated the committee would be presented one (1) approval item and six (6) 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 November 15, 2018, Audit and Compliance Committee meeting listed on the committee’s agenda.

Action Items:

1. Approval of Minutes – Item B

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

   - November 15, 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 November 15, 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, Board of Regents’ Policies on Internal Audit, Institutional Compliance and Identity Theft Prevention – University of Houston System. Mr. Guyton stated this item referred to the Board of Regents’ Policies on Internal Audit, Institutional Compliance, and Identity Theft Prevention. The Audit Committee Planner, Item No. 3.03, requires an annual review of these policies by the committee. There have been no suggested changes to the Institutional Compliance and Identity Theft Prevention policies since they were updated and reviewed by the Audit and Compliance Committee on March 8, 2018. Mr. Guyton stated he wanted to point out a few things about the Internal Audit Policy that their standards require the University to do each year.

Mr. Guyton introduced Mr. Russ Hoskens, Executive Director, Internal Auditing to review these points with the committee. Below is a summary of his remarks.

Mr. Hoskens stated this policy served as the Internal Audit Charter and it establishes the framework for the Internal Audit function. Paragraph 41.01.2.C. of this policy requires the Internal Auditing Department (“IA”) to adhere to the mandatory elements of The Institute of Internal Auditors’ International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. Internal Auditing Standard 1010 requires the Chief Audit Executive to discuss the definition of Internal Auditing, the IIA Code of Ethics and the Standards with the Board of Regents and senior management. Paragraph 41.01.1.C. of this policy was the definition of Internal Auditing and it states: “Internal Auditing is an independent, objective assurance and consulting activity designed to evaluate and improve the effectiveness of risk management, control and governance processes.”

The Code of Ethics establishes the four (4) principles that Internal Auditors were expected to apply and uphold:

(1) Integrity
(2) Objectivity
(3) Confidentiality, and
(4) Competency.

The Code of Ethics also contains 12 specific rules of conduct for these principles; and each year all audit staff, including Mr. Hoskens, reads the Code of Ethics and signs a statement acknowledging their responsibilities to adhere to the Code of Ethics.

Mr. Hoskens stated the IIA Standards were comprised of Attribute Standards and Performance Standards.
The Attribute Standards mentioned were:
(1) Purpose, Authority and Responsibility;
(2) Independence and Objectivity;
(3) Proficiency and Due Professional Care; and
(4) Quality Assurance and Improvement Program.

The Performance Standards mentioned were as follows:
(1) Managing the Internal Audit Activity;
(2) Nature of Work;
(3) Engagement Planning;
(4) Performing the Engagement;
(5) Communicating Results;
(6) Monitoring Progress; and
(7) Communicating the Acceptance of Risks.

IIA Standard 1310, Requirements for the Quality Assurance Improvement Program, requires the program to include both internal and external assessments. Every three (3) years the IA Department undergoes both an internal assessment and an external peer review to determine whether the department adheres to these Standards and the Code of Ethics. The last Peer Review Report was issued in June 2018 and was on the agenda for the August 23, 2018, Audit and Compliance Committee meeting. It was noted that at this time there were no suggested changes to this policy.

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, FY2018 External Audit Reports – University of Houston System:
- UH Athletics Department, Independent Accountants’ Report on the Application of Agreed-Upon Procedures
- UH Charter School, Audit Report and Financial Statements
- UHS Endowment Fund, Auditor’s Report and Basic Financial Statements
- UHS Public Media, Financial Statements and Independent Accountant’s Report
- UH Cancer Prevention Research Institute of Texas Grant Awards, Independent Accountants’ Report on Application of Agreed-Upon Procedures

Mr. Guyton said this item referred to the following External Audit Reports for Fiscal Year 2018: Independent CPA’s Report on the Application of Agreed-Upon Procedures of the Athletics Department; the Audit Report and Financial Statements of the UH Charter School; the Audit Report and Basic Financial Statements of the UHS Endowment Fund; and the Agreed-Upon Procedures Report for the UH’s Cancer Prevention and Research Institute of Texas Grants. The Financial Statements and Independent Accountant’s Report on UH Public Media were rescheduled to the May 16, 2019, Audit and Compliance Committee meeting. The other supplemental information had been excluded from the Endowment Fund Financial Statements. This information included the Schedule of Noncurrent Investments and the Schedule of Changes in Net Position by Endowment. These schedules are on file in the Board of Regents’ office with the complete set of financial statements. The financial statements of the Charter School were
approved by the Charter School Board at its meeting held on January 15, 2019. This year there were two (2) CPA firms retained to prepare reports for these engagements, Belt Harris Pechacek and BKD. Belt Harris Pechacek conducted the engagements for Athletics and the Charter School; and BKD conducted the engagements for Endowments, Houston Public Media and the UH Cancer Prevention and Research Institute of Texas Grant Awards. The biographies of the engagement partners were provided to the committee. These individuals were present at the meeting and provided brief presentations on their reports.

Mr. Guyton introduced Mr. Robert Belt, Belt Harris Pechacek, who conducted the engagements for Athletics and the Charter School, followed by Mr. Brian Krueger and Ms. Amanda Eaves, both from BKD, who conducted the engagements for Endowments, Houston Public Media and the UH Cancer Prevention and Research Institute of Texas Grant Awards. Below is a brief summary of their reports.

Mr. Belt began his presentation by stating he was pleased to present to the Board the NCAA Report. They had applied the procedures as prescribed by the National Collegiate Athletic Association (“NCAA”); and the results of their report were presented in detail for the committee’s reference. Mr. Belt’s Executive Summary stated there was nothing that he believed within the report that rises to the level that would need to be discussed at this meeting. It was a clean report. Mr. Belt also presented the Charter School’s report. They performed an audit in accordance with the TEA Guidelines as well as Professional Auditing Standards and he was very pleased to announce that it was an unmodified report which was the highest level of assurance he could provide to the committee that all of the disclosures required by Generally Accepted Accounting Principles had been included and the financial statements were materially correct. There were no findings associated with their audit and it was described as a clean audit report. This concluded Mr. Belt’s report.

Mr. Brian Krueger and Ms. Amanda Eaves, both from BKD, presented their audit reports to the committee. Mr. Krueger began his presentation with the Endowment audit. He stated they did issue an unmodified audit opinion, which as noted above, was the highest level of assurance provided to the committee. They did not have any adjustments that were required to be posted. There was one (1) immaterial adjustment that was not posted in the materials; a few of the managers had been a little tardy in getting fair value information on a few of those investments to the Endowment in a timely manner thus that was the nature of that past adjustment. There were no material weaknesses or significant sufficiencies that needed to be addressed with the committee. It was noted that it was a clean Endowment Fund audit report.

Mr. Krueger stated that they were close to completing the Houston Public Media audit report and it will be brought to the committee at the next meeting held on May 16, 2019.

Mr. Krueger asked Ms. Eaves to present the final audit report on UH’s Cancer Prevention and Research Institute of Texas Grant Awards. Ms. Eaves thanked the committee again for the opportunity of working with the University of Houston and for presenting their reports at the meeting. Ms. Eaves stated they did conduct their Agreed-Upon Procedures Engagement over the University’s Cancer Prevention Grant, and these procedures are prescribed by the Texas Cancer
Prevention Research Institute of Texas. They performed their procedures and were happy to inform the committee that there were no exceptions; therefore, it was a clean audit report.

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

Item E, the Report on University of Houston System, Institutional Compliance Status Report for the three months ended December 31, 2018 – University of Houston System, was the next agenda item presented by Mr. Guyton. Mr. Guyton stated that this item referred to the Institutional Compliance Status Report for the three (3) months ended December 31, 2018. This report listed activities which included risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports. Listed in this report was the completion rates of the mandatory training at each of the UH System institutions which averaged 98%. The remainder of the Institutional Compliance Status Report summarized the information provided for each institution for their compliance functions.

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

Mr. Guyton presented Item F, the Report on University of Houston System Internal Audit Briefing Booklet including Audit Activity Outline / Audit Plan Status, Internal Audit Reports – University of Houston System, and stated that this item referred to the Internal Audit Briefing Booklet. The Briefing Booklet contained an Activity Outline and Internal Audit had prepared eight (8) Internal Audit Reports since the November 15, 2018, Audit and Compliance Committee meeting. In this outline, IA had 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 2019.

IA also had various Special Projects in Progress. The State Auditor recently issued the FY2018 Statewide Audit and it included the results of their follow-up work on the FY2017 recommendations for the UH Title IV Financial Aid Programs and Federal Research and Development expenditures. The results of this report will be included on the agenda of the May 16, 2019 committee meeting. Included in the activity outline was the Audit Plan Status; and the shaded areas were complete, and the footnotes indicated the status on the other areas.

The Executive Summaries of the Internal Audit Reports and the Individual Reports were addressed in the Briefing Booklet. These reports addressed areas included in the Board-approved Audit Plan and included: IA’s Follow-up Status Report and IA’s Report on Construction and other Contracts Requiring Board Approval; Reports on the Joint Admission Medical Programs at the University of Houston and UH-Clear Lake; a Report on UH System Contract Administration Pouring Rights; Reports on Departmental Reviews of the UH Honors College and the UH College of Pharmacy; and a Report on UH Athletics Football Attendance. 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. Internal Audit Reports on the Contract Administration Pouring Rights and the Departmental Reviews contained Management Action Plans and were included in the Briefing Booklet. An overview of all of IA’s recommendations were included in these reports.
Audit Report No. 2019-08 was Internal Audit’s Follow-up Report and addressed the status of 64 action items in 18 Individual Audit Reports. IA verified that 57 of the action items had been implemented and seven (7) partially implemented. Updated management responses were obtained on the partially implemented action items. Internal Audit had three (3) high risk items in this report related to the Information Technology areas and they have all been implemented. There were 35 action items in this report that had a suffix behind the action item number which meant the person responsible for implementing the action item missed the deadline at least once. It was noted for the committee that at the November 15, 2018, Audit and Compliance Committee meeting, IA changed the protocol such that if the deadline was missed twice, an explanation would have to be provided to the committee for the reasons that the item was not implemented. Mr. Guyton was pleased to report that the committee would not be receiving any explanations at this meeting today because all of these items had been implemented. Mr. Guyton noted that at the prior meeting held on November 15, 2018, Mr. David Bradley, Chief Financial Officer at UH-Downtown, had to provide an explanation for one (1) item that was not implemented. Mr. Guyton was pleased to report that at that meeting Mr. Bradley had stated that he would have it implemented prior to this meeting; it has been completed; and is in the Follow-up Status Report.

Chair of the Committee, Regent Taaffe, thanked Mr. Bradley and everyone who avoided the opportunity to speak before the committee at this meeting! He thanked Mr. Guyton for his work.

Audit Report No. 2019-09 was Internal Audit’s Report on Construction and Other Contracts Requiring BOR approval. This was 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 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 BOR approval. This report covered the activity from October 1, 2018 through December 31, 2018. Appendix 1 of this report indicated the scope of the Internal Audit Review and showed that Internal Audit had performed audit procedures on seven (7) of the projects listed. Internal Audit noted no unusual items or other matters that they considered non-compliant with University policies and procedures or state statutes.

Audit Reports No. 2019-10 and No. 2019-11 were reviews of grants made to the University of Houston and UH-Clear Lake by the Joint Admissions Medical Program and IA found no areas of non-compliance with the grant agreement or expenditure guidelines.

Audit Report No. 2019-12 was IA’s report on the UHS Contract Administration – Pouring Rights. IA noted opportunities for improvement in the areas of contract oversight, contract monitoring and the commission settlement and reconciliation processes and management developed action plans to address those areas.

Audit Reports No. 2019-13 and No. 2019-14 were Departmental Reviews on the UH Honors College and UH College of Pharmacy and Internal Audit noted no significant issues in these reviews.
Audit Report No. 2019-15 was required by the NCAA. It was noted in this report there was a table listing the paid attendance for each home game. This year’s average attendance was 21,301 (last year’s average attendance was 26,660).

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

The next item presented to the committee by Mr. Guyton was Item G, the Report on University of Houston System, UHS Financial Statements Certifications, FY2018 – University of Houston System. Mr. Guyton stated this item referred to Certification of Annual Financial Statements. The Audit Committee Planner, Item No. 3.13, requires that the UH System Chancellor and UH System Chief Financial Officer certify the annual financial statements for the UH System as a whole, and that each component President and Chief Financial Officer certify the annual financial statements for their respective component institutions. This agenda item contained these certifications. Prior to the Chancellor and Senior Vice Chancellor for Administration and Finance signing the certifications, the following steps had taken place:

1. UH-Clear Lake (“UHCL”), UH-Downtown (“UHD”), and UH-Victoria (“UHV”) Chief Accounting Officers, Chief Financial Officers, and Presidents certified that the financial reports for their campuses were true and correct to the best of their knowledge;
2. University of Houston (“UH”) and UH System Administration (“UHSA”) Administrators and Unit Heads representing 130 Departments completed the FY18 Department Fraud Risk Survey, which included questions about verifying cost center transactions, reporting instances of fraud and non-compliance, and other internal controls. According to the survey results, internal controls were adequate to ensure that the financial transactions created for FY2018 by UH/UHSA Departments were true and correct; and
3. Various responsible persons, including the Chief Financial Officer and Chancellor signed the Certification Letter for UH, UHSA, and UH System Consolidated based on:
   (a) Department Surveys, which had indicated internal controls were adequate within UH and UHSA Departments to ensure correct financial transactions;
   (b) Certifications signed by UHCL, UHD, and UHV representatives; and
   (c) Their knowledge and review of the FY2018 Annual Financial Report for UH, UHSA, and UH System Consolidated.

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

The last item presented by Mr. Guyton was Item H, the Report on University of Houston System, Emergency Management/Safety and Security Audit – University of Houston System. Mr. Guyton reiterated that this agenda item referred to the UHS Emergency Management/Safety and Security Audit. This report is required every three (3) years by the Texas Education Code § 51.217. This was the third time this report had been presented to the Board of Regents and it will be transmitted to the Governor’s Office of Emergency Management. Mr. Guyton introduced Ms. Kelly Boysen, UH Director of Emergency Management, who presented this item to the committee; and below is a brief summary of her remarks.
Ms. Boysen stated she would be providing the board a review of the audit that had been conducted in 2018. As noted by Mr. Guyton, this audit is required by the Texas Education Code 51.217 every three (3) years and the findings must be reported to the Board of Regents and subsequently they will be sent to the state through the Division of Emergency Management.

There are four (4) main areas that were covered through this audit:

- Texas Education Code 51.217 § 51.281
  - Multi-hazard Emergency Operations Plan
  - Safety and Security Audit
  - Emergency Alert System
- State Office of Risk Management (SORM) Texas Continuity Policy
  - Continuity of Operations Planning

Ms. Boysen said that the code itself states that procedures should be followed that are given from the state’s Division of Emergency Management; however, there were actually no formal audit procedures from the state. This audit was developed in conjunction with the System’s Internal Audit Office, who works with the Peer institutions from other Texas universities in order to develop the criteria and the procedures to come up with the audit.

The methodology of the audit was addressed. Essentially, each institution is required to complete a self-assessment and the actual audits are performed by the use of Peer Review Teams. Emergency Management experts from the other institutions make up the Peer Review Team; and in addition to that, there is an outside Emergency Management expert from higher education that is a representative on each of the teams. The audit findings and recommendations are then compiled by the Peer Review Teams and then each institution completes an action plan and provides responses to the recommendations that were given by the audit teams.

Ms. Boysen presented a high level overview of the audit findings given in the report as follows. It was noted that in the report each institution had their own appendix and a snapshot for each institution showed all of the 30 requirements - what was in place, in progress or found as not in place; followed by an action plan by each institution with their responsible party and a respective completion date for those action items; and then the recommendations from the Peer Review Teams as well as the institution’s managements’ response.

Ms. Boysen showed a comparison of the audit findings from the last audit completed in 2015 to the current audit performed in 2018 (among 30 requirements for each institution).

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<th>University</th>
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<td>University of Houston</td>
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<td>UH-Clear Lake</td>
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<td>UH-Victoria</td>
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<td><strong>Total Findings:</strong></td>
<td><strong>31</strong></td>
<td><strong>18</strong></td>
<td><strong>12</strong></td>
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As of 12/18/18
Improvements have been made at all System institutions in the past three (3) years and Ms. Boysen highlighted some key recommendations:

1. The development of a Comprehensive Continuity of Operations Planning Program; and
2. The need for FTE staffing dedicated specifically for the Emergency Management function.

A brief discussion followed.

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

At 11:15 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 11:42 a.m.

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Others Present:

Renu Khator
Jim McShan
Paula Myrick Short
Dona Cornell
Eloise Dunn Brice
Amr Elshai
Lisa Holdeman
Richard Walker
Chris Pezman
Mike Johnson
Ira A. Blake
Juan Sánchez Muñoz
Joe Tedesco
Suresh Khator
De’Awn Bunch
Jeff Palmer
Kelly Boysen
Carol Manousos
Lory Santiago-Vazquez

Don Guyton
Raymond Bartlett
Eric Herrera
Jeff Palmer
Ed Hugetz
Elwyn Lee
Wayne Beran
David Bradley
Karín Livingston
Sgt Gene Krueger
Sgt Sabrina Hassumani
Robert Belt
James Bonaby
Theresa Rehm
Connie Applebach
Mark Clarke
Al Black
Scott Marzilli
Deshuvian Williams

Russ Hosken
Sandra Dahake
Mike Emery
Susan Koch
Dan Maxwell
Mark Denney
David Oliver
Valerie Coleman-Ferguson
Lt. Walter Lucas
Johanna Wolff
Stephen Spann
Brian Krueger
Off. Calvin Webster
Alfred Mimms
Kevin Draper
Amanda Eaves
Carol Manousos
Charles Gengler
Lisa Gossett
Others Present (cont’d):

<table>
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<tr>
<th>Chris Ward</th>
<th>Elizabeth Beavers</th>
<th>Linda Klemm</th>
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<tr>
<td>Karen Barbier</td>
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