Thursday, May 16, 2019 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 11:44 a.m. on Thursday, May 16, 2019, at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, 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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<tr>
<td>Peter K. Taaffe, Chair</td>
<td>Beth Madison, Regent</td>
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<td>Durga D. Agrawal, Vice Chair</td>
<td>Paula M. Mendoza, Regent</td>
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<td>Gerald W. McElvy, Member</td>
<td>Jack B. Moore, Regent</td>
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<td>Steve I. Chazen, Member</td>
<td>Andrew Z. Teoh, Student Regent Non-voting</td>
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<td>Tilman J. Fertitta, Ex Officio Member</td>
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Member Present (via Teleconference Call)  
Doug H. Brooks, Member

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 11:44 a.m. Regent Taaffe stated the committee would be presented one (1) approval item and seven (7) 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 February 28, 2019, 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 Chazen, and by unanimous vote of the regents in attendance, the following minutes from the meeting listed below was approved:

   - February 28, 2019, 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 February 28, 2019 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, Houston Public Media (A Division of the University of Houston), Independent Auditor’s Report and Financial Statements, August 31, 2018, and 2017 – University of Houston System. Mr. Guyton stated that the committee had been provided the biographies of the management of the CPA firm’s engagement team who were present at the meeting and who would provide a brief presentation on this report. Mr. Guyton introduced Mr. Brian Krueger from BKD, who presented brief remarks on this item. Below is a summary of Mr. Krueger’s remarks.

Mr. Krueger stated it was a pleasure to be present at this meeting and to present his remarks on the audit they had performed on Houston Public Media. BKD did render an unmodified audit opinion and the attachments had been included in the agenda item. Mr. Krueger did state that Houston Public Media’s financial statements did have significant changes from the prior year. The Stations were required to adopt Governmental Accounting Standards Board (GASB) Statement Number 75, a new accounting standard related to other post-employment benefits for this fiscal year, so there was a restatement in the financials because of restating that position to an approximate amount of $2.4 million.

Mr. Krueger had some exciting news to share: the Stations were able to reduce the liability back to the University that had been carried for a number of years that actually reduced approximately $2.75 million from prior years. Mr. Krueger noted that this was definitely moving in the right direction! The financial statements also showed a positive change in that position - that income of approximately $2.4 million (so if one were to look back a few years ago, the Station carried a loss of approximately $6 million). He briefly outlined the communication’s letter for the committee’s information and within this letter they addressed significant estimates that were included within Houston Public Media’s financial statements; the significant disclosures within there as well which did include the adoption of the new Governmental Standard of GASB 75; they discussed the proposed and past audit adjustments; and addressed very significant issues that had been reviewed with management of the Station.

Following Mr. Krueger’s presentation, Mr. Guyton introduced Mr. Jim McShan, Senior Vice Chancellor for Administration and Finance who presented a few initiatives that have been initiated by Houston Public Media (“HPM”); and below is a brief summary of his comments.

Mr. McShan noted this had been the second year in a row whereby HPM had not had a deficit. Ms. Lisa Shumate, Associate Vice President for HPM has done a great job. Listed below are a few of the initiatives addressed.

1. The new HPM tower will cost approximately $5 million. HPM has already developed a reserve of $3.7 million and with gifts, etc. coming into the Station, HPM hopes to cover the remainder of the debt in the next year or so.
2. HPM is operating as a business, with the plan of paying off the debt. Upon the recommendation of Regent Madison last year, the university has looked for opportunities to utilize the services of HPM to benefit the university and then compensate HPM for those activities.

3. Information Technology and Risk Management areas of the university currently lease space from HPM which works well for all parties.

4. Over the next few years, University Advancement will be working on a campaign to use HPM for advertising the new College of Medicine at the University of Houston.

5. In addition, as part of the American Athletic Conference, the university is required after the January 1, 2020, to produce a certain number of athletic shows. ESPN would provide the content and HPM will do the production.

Mr. McShan stated that by identifying these initiatives, approximately $8 million could be returned to the university by the year 2028. A lengthy discussion followed.

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, State Auditor Reports – University of Houston System: (1) State Auditor Report 19.315 – State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2018 and (2) State Auditor Report 19-555 – State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2018. Mr. Guyton presented this item to the committee and stated this item referred to the State Auditor’s Reports 19-315, State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2018; and 19-555, State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2018. A listing of key points in these reports were related to the University of Houston (“UH”). (This was the only UHS entity addressed in this report.) The auditor’s fieldwork at UH consisted of follow-up procedures on prior year audit findings and listed on these pages were the status of the prior year recommendations which were marked “action complete” or a new estimated completion date was indicated. Following these pages were the excerpts from the report as they related to the University of Houston. After this report, the State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2018 listed the auditor’s follow-up work performed on the recommendation from the prior year report which indicated the action had been completed. The University of Houston excerpts of this report and the specific UH issue were also listed.

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

Mr. Guyton presented the next item listed on the agenda, Item E, a Report on External Audit Report – Texas Comptroller of Public Accounts Post Payment Audit of the University of Houston – University of Houston 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. The scope of this audit included a sample of payroll, purchase, and travel transactions at UH for the 12-month period March 1, 2017, through February 28, 2018. The purpose of this audit was to determine compliance with applicable state laws. Auditors found no issues with
purchase, contracts, travel, grants, and property management transactions. The audit identified incorrect HRIS reporting, incorrect longevity payment amounts, missing dual employment forms and timesheets, failure to notify Comptroller’s office to remove employees from signature card, and incomplete authorization forms. There is a summary table in the report that was a good snapshot of the areas of the audit and the status of each area.

The State Comptroller’s office performs post-payment audits of each institution approximately every two (2) to three (3) years. The report for UH-Clear Lake should be presented at the next regularly scheduled Audit and Compliance meeting to be held on August 22, 2019. A start date has not yet been identified for either UH-Downtown or UH-Victoria post-payment audits.

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

Item F, a Report on University of Houston System, Institutional Compliance Status Report for the Three Months ended March 31, 2019 – University of Houston System, was the next item presented on the agenda. Mr. Guyton stated this item referred to the Institutional Compliance Status Report for the three (3) months ended March 31, 2019. This report listed activities which included risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports. 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 committee action was required.

Next on the agenda for presentation was Item G, a Report on University of Houston, Institutional Compliance Program – Federal Sentencing Guidelines – University of Houston System. Mr. Guyton stated this item referred to the Institutional Compliance Program – Federal Sentencing Guidelines and he introduced Ms. Susan Koch, Chief Compliance Officer at the University of Houston, who would be presenting this report. Below is a summary of Ms. Koch’s remarks.

Ms. Koch gave a presentation on the Federal Sentencing Guidelines. This presentation focused on the applicability to the guidelines to organizations and how they are relevant to compliance and ethics program.

Overall, the Federal Sentencing Guidelines is a large document with over 600 pages and it applies to what kind of sentencing parameters are out there to provide judges guidelines in terms of sentencing for different criminal defendants and to provide uniformity. Chapter 8 of those guidelines pertains to organizations specifically; and that is what will be relevant to us and other institutions. It is important to note that organizations, like individuals, can be convicted of criminal conduct; and while an organization cannot be imprisoned, organizations could be fined, sentenced to probation and ordered to pay restitution. The most commonly occurring offenses for organizations have been fraud, environmental violations and tax violations.

Essentially when one looks at Federal Sentencing Guidelines for Organizations, it will be a set of guidelines that help us understand what would be happening in terms of the imposition of fines. The judges will look at a scale measuring culpability compared to mitigating factors. These
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guidelines were established to enhance two (2) purposes of criminal sentencing – offer uniformity as well as some deterrence efforts.

In terms of the relevance to our compliance program and then essentially having a structural foundation for understanding what is intended for mitigating factors, the Federal Sentencing Guidelines for Organizations actually sets up parameters for ways that an organization can be having a reduction in what the penalties are based on whether or not there is some type of effective compliance and ethics program in place. Basically, the Guidelines set forth a blueprint as to what you can do to have an effective compliance and ethics program.

Criminal liability can attach to an organization. If an organization has an employee who is acting within the scope of their employment and commits some type of criminal offense, even if it is contrary to the organization’s policies and procedures, the organization, itself, can be held liable as well. Because of this, the commission attempted to alleviate some of the harshest aspects of this type of exposure by having a sentencing structure that takes into account some type of mitigating factor that if the organization has in place a program that helps it prevent and detect fraud as well as other criminal activity, then that is something that can be an immense benefit when one looks at the Sentencing Guidelines if you are an organization. The Guidelines recognize that if an organization has an effective compliance and ethics program in place, the preventive and deterrent aspects of the program will be taken into consideration; and if an organization can demonstrate that it has in place an effective compliance and ethics program, the potential fine range could be significantly reduced by up to 95%.

Ms. Koch reiterated that in order to have an effective compliance and ethics program, an organization shall: (1) exercise due diligence to prevent and detect criminal conduct; and (2) otherwise promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law. To break this down, there are essentially eight (8) fundamental elements to identify what is important and reflective of our compliance and ethics program. Listed below are these eight (8) elements for reference:

1. **Policies:** Implementing compliance standards reasonably capable of preventing and detecting criminal conduct;
2. **Oversight and Accountability:** High-level personnel exercises reasonable oversight of the program;
3. **Delegation of Authority:** The organization uses reasonable efforts not to delegate authority to any individual who the organization knew or should have known to be engaged in illegal activities;
4. **Education and Awareness:** Communicating standards effectively standards through training and education;
5. **Risk Assessments:** Periodically conducting risk assessments and evaluating effectiveness of the program;
6. **Anonymous Reporting:** Having and publicizing an anonymous reporting system to report potential misconduct free from retaliation;
7. **Enforcement:** Enforcing standards through well-publicized disciplinary guidelines; and
8. **Detection and Response:** Promptly and appropriately responding to detected issues, including corrective action.
Other factors of an effective compliance program were addressed. Ms. Koch stated that it was not a “check the box” situation or “one size fits all.” It must promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law. Enhancements and ongoing program improvements are expected as the risks confronting the organization changes.

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

Mr. Guyton introduced the next item listed on the agenda, Item H, a Report on University of Houston system, Internal Audit Briefing Booklet including Audit Activity Outline / Audit Plan Status, Internal Audit Reports and Internal Audit Quality Assurance Improvement Program Report – University of Houston System. Mr. Guyton asked Mr. Russ Hoskens, Assistant Chief Audit Executive, to present this item to the committee for their reference.

Mr. Hoskens stated that this item referred to the Internal Audit Briefing Booklet. The Briefing Booklet contained an activity outline which included five (5) Internal Audit Reports prepared by Internal Auditing (“IA”) since the February 28, 2019, 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 FY2019.

Mr. Hoskens stated in Item 4, Internal Auditing had various Special Projects in Progress; and it was noted that behind the Activity Outline was the Audit Plan Status Report. 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, as well as the Individual Reports. These reports addressed areas included in the Board-approved Audit Plan and included Internal Audit’s Follow-up Status Report and their Report on Construction and Other Contracts Requiring Board Approval, Reports and Internal Audit Reviews of UH Athletics NCAA Rules Compliance and UH System Budgeting System-wide, and Internal Audit’s Departmental Review of the UH Division of Student Affairs and Enrollment Services. 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. Internal Audit Reports on UH Athletics NCAA Rules Compliance and UH System Budgeting System-wide contained Management Action Plans and they were included in the Briefing Booklet.

Audit Report No. 2019-16 was IA’s Follow-up Report and addressed the status of 24 action items in 13 Individual Audit Reports. Internal Audit verified that 14 of the action items had been implemented and 10 had been partially implemented. Updated management responses were obtained on the partially implemented action items. Internal Audit had no high risk items in this report and there were no items that required additional explanations from management.

Audit Report No. 2019-17 was the Internal Audit Report on Construction and Other Contracts Requiring Board Approval. This is a standing report in their Briefing Booklet, similar to the 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 January 1, 2019 through March 31, 2019. 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 four (4) 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. 2019-18 was IA’s report on UH Athletics, NCAA Rules Compliance and there were no significant items to bring to the committee’s attention.

Audit Report No. 2019-19 was IA’s Report on UH System Budgeting. All institutions were scheduled to implement the new budgeting system implemented by UH System/UH with UH-Clear Lake implementing it now followed by UH-Downtown and UH-Victoria. The new system offers enhanced budget development, enhanced reporting, and a more streamlined salary budget process.

Audit Report No. 2019-20 was IA’s Report on UH Division of Student Affairs and Enrollment Services, Departmental Reviews and there were no significant issues noted in this review.

In Section 6 of the Briefing Booklet was IA’s Report on their Quality Assurance Improvement Program. This was a requirement of the Institute of Internal Auditors Standards. This report listed some of the things IA does to help ensure the quality of the services they perform and how they monitor their progress.

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

Mr. Guyton moved to Item I, a Report on University of Houston System, UH System Support Organizations – University of Houston System: (1) Compliance Review of UH System Support Organizations and (2) UH System Support Organizations Report, and stated that this item referred to the Compliance Review of UH System Support Organizations and the UH System Support Organizations Report. The Compliance Review of the UH System Support Organizations indicated the status of the receipt of required information from the Support Organizations. Mr. Guyton stated the only item that they had not received was the IRS Form 990 for the UH College of Business Foundation; and the expected receipt date had been inserted in the analysis. It was also noted that all Support Organizations, with the exception of the College of Business Foundation, had signed extension agreements or new agreements.

IA had also included the analysis of the prior year, which had been updated to indicate the receipt of the two (2) items which had not been received when this was presented last year. Those items were the IRS Form 990’s for the College of Business Foundation and the Public Media Foundation. The Compliance Review was prepared by UH System Advancement and the accompanying compilation of financial information was prepared by UH System Financial Reporting. UH System Support Organizations Report was a compilation of information from Audited Financial Statements, IRS Forms 990, Investment Reports and other information.
furnished to the UH System by the Support Organizations. The purpose of this report was to provide information on Support Organization’s activities and the Board of Regents and UH System’s responsibilities with respect to the Foundations. As noted in the report, the Regents’ fiduciary responsibilities to the System related to these organizations was addressed in agreements between the System and the Support Organizations. In meeting the requirements of the Board of Regents’ Policy on Support Organizations which required them to furnish certain information to the System; and this requirement was spelt out in the agreements with the Support Organizations.

Ms. Cornell presented a brief background of the Support Organizations. In 2013, a revised Support Organization was completed. Essentially, not all of the agreements were absolutely identical but they were very close to having the exact same 5-year agreement. All organizations’ agreements were set to be renewed or revised; and at a Special Called Board of Regents meeting the Board addressed how these agreements would be handled moving forward. Instead of revising all of the agreements at one time, it was decided that the University would do an extension of each of these agreements. Currently, the University has received signed extensions from all of the Support Organizations, with the exception of the UH College of Business Foundation which is still under discussion. Ms. Cornell stated that Section 22.55 of the Texas Government Code, requires the University to have a Support Organization agreement with each of those Support Organizations that operate for our benefit; it requires the Board to adopt rules to that affect which is in Board policy 32.06; and a System Administrative Memorandum (“SAM”) policy on this topic is also in place which lays out the elements that need to be included in those agreements. Regent Taaffe asked Ms. Cornell if the Board has met all of the obligations under this law and the Board’s rules and policies with respect to every Support Organization, with the exception of the UH College of Business Foundation; and Ms. Cornell confirmed, but it was noted that the University was still negotiating with the UH College of Business Foundation regarding their extension agreement. It is expected that this will be completed by the next Audit and Compliance Committee meeting that will be held on August 22, 2019; and Regent Taaffe asked that an update on this issue be reported to the Board at this upcoming meeting.

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

Following Mr. Guyton’s presentation on this item, Regent Taaffe thanked Mr. Guyton and Mr. Hoskens for their presentations at this meeting.

At 11:32 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 12:06 p.m. and stated the Board had met in Executive Session and discussed personnel 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 12:07 p.m.

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Others Present:

Renu Khator  Don Guyton  Russ Hoskens
Jim McShan   Raymond Bartlett  Sandra Dahlke
Paula Myrick Short  Eric Porter  Tamara Davis
Dona Cornell  Jeff Palmer  Susan Koch
Eloise Dunn Brice  Dan Maxwell  Shiv Agrawal
Richard Walker  Karin Livingston  Fred McGhee
Ira A. Blake  Pam Muscarello  Brian Krueger
Juan Sánchez Muñoz  Randy Wong  David Oliver
Robert Glenn  Mark Denney  Kevin Draper
Lisa Holdeman  Brandee O’Neal  Tony Moreno
Nader Ibrahim  Jeff Collier  Eric Link
Phil Booth  Jon Aldrich  DoVeanna Fulton
Mark Clarke  Emily Tran  Brian Thomas
Off. Demarcus Williams  Matthew Castello  Macie Kelly
Joe Brueggman  Shannon Harrison  Brenda Robles
Marquette Hobbs  Gerry Mathisen