Thursday, August 23, 2018 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 10:49 a.m. on Thursday, August 23, 2018, 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>Doug H. Brooks, 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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<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 10:49 a.m. Regent Taaffe stated the committee would be presented eight (8) agenda items: two (2) requiring committee and board approval; one (1) requiring committee approval only; and the remaining five (5) items for information only.

Regent Taaffe stated the first order of business would be Item B, the approval of the minutes from the May 24, 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 Agrawal, and by unanimous vote of the regents in attendance, the following minutes from the meeting listed below was approved:

   - May 24, 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.

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Mr. Guyton began his remarks and it was noted that there were no open points from the May 24, 2018 committee meeting.

Mr. Guyton stated the first item for the committee’s consideration would be Item C, a Report on Annual Internal Audit Plan, FY2019-FY2021 – University of Houston System. Mr. Guyton asked Mr. Russ Hoskens, Executive Director of Internal Auditing, to present this item to the committee. Mr. Hoskens stated this item was the final draft of the Annual Internal Audit Plan for Fiscal Years 2019-2021 for the committees’ review and approval. An executive summary of the plan was noted in Section 1; the resource and budget information was in Section 2; and the listing of the Audit team members was noted in Section 3. The plan also contained a risk assessment for all components. Risk assessment techniques were employed to identify auditable areas and to ensure that the accounting systems and controls, the administrative systems and controls, and other major systems and controls were reviewed on a periodic basis. Audits of these higher risk areas should help mitigate some of the risk. Internal Audit (IA) had prepared a separate risk assessment for each campus. In preparing the Audit Plan and Risk Assessment, IA received input from key personnel throughout the entire System, including the Chancellor and the Chair of the Audit and Compliance Committee. The Texas Government Code, Section 2102 requires the Board of Regents to approve the Audit Plan and periodically review the resources dedicated to the Internal Audit program and determine if adequate resources exist to ensure that risks identified in the Annual Risk Assessment were adequately covered within a reasonable time frame.

The Internal Audit resources and budget were described in the Audit Plan in the Executive Summary, Section 1 and in the Summary of Effort, Section 2. In this Section, the budgeted hours were calculated and a description of the resources were provided. This year’s budget contained some additional funds of approximately $49,000 to restore funding resulting from last year’s budget cut for IA’s co-sourced IT audits. When the Audit Plan was presented last year, IA had indicated that they would request restoring those funds this year. Internal Audit believes the resources dedicated to the Internal Audit program were adequate.

It was also noted that in the Organization Chart of the Internal Auditing Department, they had one (1) vacant auditor position and they hope to have this position filled shortly. Section 3 on their audit team contained brief biographies of their team members; and Mr. Hoskens introduced the various team members to the committee. Section 6 of the report contained the three (3) year schedule of planned engagements. This Audit Plan, including a summary of the Internal Audit resources was being presented for the committee's review and approval so that it could be approved by the Board at their meeting.

On motion of Regent Brooks, seconded by Regent Chazen, and by unanimous vote of the committee members in attendance, the Report on Annual Internal Audit Plan, FY2019-FY2021 – University of Houston System was approved.

The next item listed on the committee’s agenda was Item D, a Report on Audit and Compliance Committee Charter and Checklist – University of Houston System. Mr. Guyton stated this item referred to the Audit and Compliance Committee Charter and Checklist which were the
recommended guidelines for the operation of the Audit and Compliance Committee. Item No. 26, on the Audit and Compliance Committee Charter and Checklist, requires an annual review and update. There were no suggested changes to this document which was last approved by the Audit and Compliance Committee at its August 24, 2017 meeting.

On motion of Regent Agrawal, seconded by Regent McElvy, and by unanimous vote of the committee members in attendance, the Report on Audit and Compliance Committee Charter and Checklist – University of Houston System was approved.

Following the approval of this item, Regent Taaffe called for a vote to place the two (2) action items, unanimously approved by the committee on the Board’s Consent Docket Agenda.

On motion of Regent McElvy, seconded by Regent Chazen, and by unanimous vote of the committee members present, the following two (2) action items were placed on the Board of Regents’ Consent Docket Agenda for final Board approval at the August 23, 2018, Board of Regents meeting that was held later that day as follows:

1. Report on Annual Internal Audit Plan, FY2019-FY2021 – University of Houston System; and


Item E, a Report on Audit and Compliance Committee Planner – University of Houston System was the next item presented for the committee’s consideration and approval. Mr. Guyton mentioned that this item referred to the Audit and Compliance Committee Planner. This planner lists all actions required of the Audit and Compliance Committee with recommended schedules for these activities. Item 2.04 requires the Audit and Compliance Committee to approve the Audit and Compliance Committee Planner for the upcoming year. There were a couple of minor corrections to the Planner related to timing of two (2) items since it had been approved by the Audit and Compliance Committee one (1) year ago. One of these items was number 3.02, the CAE performance review, and the other one was number 5.08, the Report on Safety and Security of the Institution’s Facilities.

On motion of Regent Agrawal, seconded by Regent McElvy, and by unanimous vote of the members in attendance, the Report on Audit and Compliance Committee Planner – University of Houston System was approved.

This item requires committee approval only and no further board action was required.

The next item listed on the agenda for the committee’s consideration was Item F, a Report on Internal Audit Briefing Booklet including Audit Activity Outline/Audit Plan Status, Internal Audit Reports – University of Houston System. Mr. Guyton stated this item referred to the Internal Audit Briefing Booklet. This Briefing Booklet contained an Activity Outline and it
was noted that Internal Audit had prepared nine (9) Internal Audit Reports since the May 24, 2018, Audit and Compliance Committee meeting. On Items 2 and 3 of this outline, it was noted that there 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.

On Item 4, Internal Audit also had various Special Projects in Progress. These included the FEMA audits, the State Comptroller Post-Payment audits of the University of Houston and University of Houston-Clear Lake, and the State Auditor’s follow-up work on the FY2017 audit.

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 seven (7) 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 Cullen College of Engineering and the University of Houston-Downtown College of Humanities and Social Sciences; reviews of Contract Administration of the System-wide Food Services and Bookstore Services; statutorily mandated audits of State Benefits Proportionality at each of the University of Houston System institutions; a System-wide Review of Payroll and IA’s Review of UH Athletics’ NCAA Rules Compliance. Internal Audit’s Follow-up Status Report, and their 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, as required by the Texas Government Code.

Audit Report No. 2018-20 was IA’s follow-up report and addressed the status of 30 action items in 12 Individual Audit Reports. Internal Audit verified that 13 of the action items had been implemented and 17 partially implemented. Updated management responses were obtained on the partially implemented action items. IA had two (2) high risk items in this report related to Information Technology reviews. One item related to the Advancement System and it had been implemented and the other item related to overall Cybersecurity and it is in progress and should be implemented by the end of this calendar year. At the suggestion of the Chancellor, going forward, if responsible parties for the action items have not completed the implementation after three (3) attempts, the responsible parties will be requested to attend the Audit and Compliance Committee meeting and explain why they were unable to complete the item. This step should result in more timely completion of action items.

Audit Report No. 2018-21 was IA’s report on Construction and Other Contracts requiring BOR approval. This is 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 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 BOR approval. This report covered the activity from April 1, 2018 through June 30, 2018. Appendix 1 of this report indicated the scope of the Internal Audit Review. It was noted that on this Appendix, Internal Audit had performed audit procedures on 18 of the projects listed.
Internal Audit had noted no unusual items or other matters that they considered non-compliant with university policies and procedures or state statutes.

Audit Report No. 2018-22 was IA’s report on UH Athletics NCAA Rules Compliance. This year, Internal Audit tested the major area of Financial Aid Administration and several other minor areas. There were no significant issues in this report. There were a few areas that needed to be addressed and the Athletics Compliance Officer is currently in the process of implementing actions.

Audit Report No. AR2018-23 was IA’s report on the Departmental Review of the UH Downtown College of Humanities and Social Sciences. There were no significant issues noted in this report.

Audit Report No. AR2018-24 was Internal Audit’s report on the Departmental Review of the UH Cullen College of Engineering. Internal Audit noted one (1) matter that they considered to be a significant risk exposure and control issue: insufficient financial and administrative oversight. The Dean and the College Business Administrator have taken steps to help ensure that condition was remedied by meeting with all department chairs and department business administrators and issuing directives that appropriate action would be taken. Mr. Guyton introduced Dean Joe Tedesco and Mr. Steve Bangerter were both present at the meeting and available to answer any questions.

Audit Report No. AR2018-25 was IA’s review of Contract Administration for Food Services. Although they noted no matters that they considered to be a significant risk exposure and control issue, Internal Audit believes there should be some improvement in contract oversight, monitoring and financial settlement. Management concurred with their recommendations and are in the process of implementing them.

Audit Report No. AR2018-26 was IA’s review of Contract Administration for Bookstore Services. Although Internal Audit noted no matters that they considered to be a significant risk exposure and control issue, they noted the same conditions as Internal Auditing had with Food Services. Management concurred with IA’s recommendations and are in the process of implementing them.

Audit Report No. 2018-27 was IA’s report on State Benefits Proportionality for FY 2015-2017. The General Appropriations Act of the 85th Legislature directed higher education institutions to conduct this audit using a methodology approved by the State Auditor’s Office (SAO). The objective of this audit was to determine whether institutions had complied with the requirements of the legislation regarding the appropriate computation of the amount of benefits that would be paid by the state. Internal Audit had noted non-compliance in the areas of financing sources and state funded benefits for unallowable compensation. In some instances, institutions were underfunded, and in one (1) instance overfunded, which will have to be repaid to the state ($7,300). Internal Audit recommended that the system standardize the processes and procedures for this annual computation and the UH System Controller was in the process of implementing the recommendation.

Audit Report No. 2018-28 was IA’s report on the UHS Payroll. Although IA had noted no matters that they considered to be a significant risk exposure and control issue, Internal Audit
noted opportunities for improvement in payroll finalization, information system access management, roles and responsibilities, and policies and procedures. Internal Audit believes that there was an opportunity to reduce exception-type activity which should result in economizing resources and improving controls.

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

The next item presented before the committee was Item G, a Report on Institutional Compliance Status Report for the Three Months ended June 30, 2018, and Annual Plan for FY2019 – University of Houston System. This report refers to the Institutional Compliance Status Report for the three (3) months ended June 30, 2018, and each institution’s Annual Compliance Plan for FY2019. This report listed activities for the three (3) months ending June 30, 2018, which included risk assessments, compliance audits, compliance committee meetings, risk mitigation, and hot-line reports. On page 1 of this report, it was noted that there were 36 hot-line reports received during this three (3) month period. These reports were allegations of sexual harassment and misconduct, fraud and non-compliance. There were 24 unresolved reports as of June 30, 2018. At the completion of this fiscal year, Internal Audit will prepare an annual report on all reports received during the year which will categorize the types of reports received. This report will be on the agenda for the next Audit and Compliance Committee meeting that will be held on November 15, 2018.

During September, the Chancellor will send out her annual notice to all UH System employees to report non-compliance, fraud and sexual misconduct. This email also makes everyone aware of the anonymous reporting mechanism.

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

Item H, a Report on NCAA Compliance Efforts by the UH Department of Athletics – University of Houston, was the next item presented to the committee. Mr. Guyton stated that this item referred to the presentation on NCAA Compliance efforts by the UH Department of Athletics. Mr. Guyton introduced Ms. Lauren DuBois, Sr. Associates Athletics Director, who presented this item. Below is a brief summary of her remarks.

Ms. DuBois stated she would be presenting the Board with a brief presentation on the past year’s summary of their violations and their efforts in the NCAA Compliance Office. Their main goals were to educate and monitor and enforce the NCAA rules. They place a special emphasis on education because the more their constituents know about what the rules are the less likely they are to have experience violations. Their main focus is to avoid a major infraction.

There are two (2) types of violations: Level I and II (Major) and Level III (Secondary). The Level I and Level II violations are those one would hear about in the news with different schools; and those are giving schools significant, competitive or recruiting advantages. Those are normally violations that are very important to the NCAA, such as academic misconduct or things that go on for a long duration of time.

Level III violations are extremely common. They are isolated or limited violations in nature which provide no more than a minimal recruiting, competitive, or other advantage and do not
include more than a minimal impermissible benefit. This type of violation is the most often self-reported from coaches, student athletes or our constituents. It is very essential for the NCAA Compliance Office to report these violations and to show that the university was reporting these types of violations because they show we have the proper monitoring and education protocols in place; that we are doing our best to identify those violations; and making sure and figuring out where the areas of concern are and we can place special emphasis on those in monitoring.

Ms. DuBois mentioned that from August 1, 2016 through July 31, 2017, the total violations reported were as follows: 13 Level III violations and 0 Level I or II violations. From August 1, 2017 to the Present, there were 12 Level III violations and 0 Level I or II violations.

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

The next item listed on the agenda was Item I, a Report on General Data Protection Regulations (GDPR) Initiative – University of Houston System. Mr. Guyton introduced this item to the committee and stated Ms. Susan Koch, UH Chief Compliance Office would present this item to the committee and below is a brief summary of her remarks.

Ms. Koch stated she at the previously meeting she had given the committee an informational update on the GDPR (General Data Protection Regulation) which is a data privacy law that was adopted by the European Union (EU). Our initiative to analyze law, to figure out the impact that it would have on us, and the steps necessary to be in compliance with the law.

Ms. Koch gave a brief background on the GDPR Initiative. This data privacy regulation became effective on May 25, 2018. It is applicable not only to personal data of individuals from the 28 EU countries and three (3) other countries that are a part of the European Economic Area (EEA). This data privacy regulation that was essentially impacting and trying to target those types of companies (such as the Google’s and Facebook’s of the world) that would take vast amounts of private information and personal information (especially on those who have a significant presence in the EU). The way the GDPR was drafted; it was so broad and it has such a sweeping take on everything that it’s extra territorial and even though it would basically be targeted to those types of companies, those other institutions outside of the EU and EEA are actually impacted and have to comply. This would also pertain to organizations that control and process data that are not only have a physical presence within the EEA but that are located outside of the EEA that receive and process information that they receive from those countries. They also have some significant penalties that could be applied from a warning to up to $25 million or 4% of an organization’s annual revenue, whichever is greater.

As previously mentioned, the GDPR does have a sweeping effect and it could apply to a US university. It could really apply to information received from a student applying for admission; an alumn making a donation to a US university; a US student attending a study abroad program; or a faculty member in a foreign country who is being recruited by a US university. To the extent that the GDPR applies, it would impose a number of obligations on the organization processing the personal data; and it grants certain rights to those individuals whose personal data is collected.
Ms. Koch briefed the committee on the UH System GDPR Initiative and the steps that were currently being taken for this initiative. They are as follows:

- In April 2018, a UH System GDPR Task Force was created;
- The applicability of the GDPR to the UH System was assessed;
- A data survey was sent out to a number of departments throughout the System in order to understand what personal data was being collected, who was gathering this information; where was it being stored; and what was it used for; in order to identify all of the touchpoints we have so as to see where the GDPR would apply.
- Based on the information received, a priority item was identified that needed to be addressed. For those students and faculty that were traveling abroad this summer the university needed to identify some way to address what they were doing since they were going to be in these countries. Therefore, a consent form was created for not only students but for faculty for them to understand the GDPR; what their rights were; what was needed for them to consent to us receiving this information; and that was disseminated for immediate use.
- In addition to this, a new uniform privacy notice for the UHS and component institutions was created.
- GDPR Guidelines have been drafted for faculty and staff.
- The Office of General Counsel and the University Information Technology representatives have been evaluating the appropriate technology controls for the personal data that we receive.
- The Office of Contracts Administration has drafted an amendment or provision that would go in vendor contracts to make sure that any vendor the university has who receives any personal data through us would also be protected.
- The university will continue to monitor and update guidance as is necessary.

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

The last item listed for discussion is Item J, a Report on Internal Audit Peer Review – University of Houston System. Mr. Guyton stated that this report referred to the Internal Audit Peer Review for 2018. 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 formalizing staff development processes and reducing the Internal Audit effort on Departmental Reviews. Internal Audit plans to implement these recommendations. The report also pointed out some very positive strengths in the areas of governance, Board and senior management support, and interaction with Internal Audit and the establishment of a co-sourced IT audit function.

Following Mr. Guyton’s presentation on this item, Regent Taaffe commended Mr. Guyton and his team for their hard work. This was a very positive report of their peers. Regent Taaffe also commented on Regent Roger Welder, former Audit and Compliance Committee Chair, was going off the Committee as the Audit Peer Review Team was doing their assessment. Regent Welder had been chair of this committee for the prior four (4) years; had done a great job as well; and Regent Taaffe asked Mr. Guyton to share this report with him.
At 11:31 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 12:01 p.m. and stated the Board had met in Executive Session and discussed personnel matters. There was no action taken by the Board in Executive Session.

There being no further business to come before the committee, this meeting was adjourned at 12:02 p.m.

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**Others Present:**

Renu Khator  Don Guyton  Russ Hoskens  
Jim McShan  Raymond Bartlett  Connie Applebach  
Paula Myrick Short  Jessie Pisors  David Oliver  
Dona Cornell  Lindsey Ellis  Susan Koch  
Amr Elnashai  Wayne Beran  Karin Livingston  
Eloise Dunn Brice  David Bradley  Ryan Harrison  
Richard Walker  Devi Bala  Mike Emery  
Mike Johnson  Taylor Davis  Sabrina Hassumani  
Ira A. Blake  Brandee O’Neal  Jeff Collier  
Juan Sánchez Muñoz  Joe Tedesco  Sandra Dahlke  
Robert Glenn  Joan Nelson  Ed Hugetz  
Lisa Holdeman  Lauren DuBois  Mark Clarke  
Todd Romero  Nader Ibrahim  Steven Berberich  
Lisa Gossett  Tom Moreno  Eric Porter  
Randy Wong  Emily Tran  Dia Mobe  
Tamara Davis  Stephen Bangerter  Kathryn Tart  
Vanessa Hernandez  Phil Booth  Jon Aldrich  
Brian Thomas  Matt Castello  Macie Kelly  
Joe Brueggman  Shannon Harrison  Brenda Robles  
Marquette Hobbs  Gerry Mathisen  

Audit & Compliance Committee Meeting  
Minutes, August 23, 2018