

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

Thursday, March 8, 2018 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 9:47 a.m. on Thursday, March 8, 2018, at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Roger F. Welder, Chair
Peter K. Taaffe, Vice Chair
Paula M. Mendoza, Member
Tilman J. Fertitta, Ex Officio

Non-Member(s) Present

Spencer D. Armour, III, Regent
Beth Madison, Regent
Gerald W. McElvy, Regent
Welcome W. Wilson, Jr., Regent
Neelesh C. Mutyala, Student Regent Non-voting

Members Absent

Durga D. Agrawal, 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, Roger F. Welder called the meeting to order at 9:47 a.m. He stated the committee would be presented six (6) items: one (1) item for the committee's and board's approval and the remaining five (5) items for information only.

Regent Welder stated the first order of business would be Item B, the approval of the minutes listed on the committee's agenda.

Action Items:

1. Approval of Minutes – Item B

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

- November 16, 2017, Audit and Compliance Committee Meeting

Following the approval of the minutes, Regent Welder introduced Mr. Don Guyton, Chief Audit Executive, who was asked to present the remaining items listed on the agenda; and stated if anyone had any questions during his presentations to please let him know.

AGENDA ITEMS

Mr. Guyton began his remarks and stated there were no open points from the November 16, 2017 committee meeting.

The first agenda item introduced by Mr. Guyton was Item C, a Report on Board of Regents' Policy on Internal Audit – University of Houston System. Mr. Guyton stated the Audit Committee Planner, Item No. 3.03, required an annual review of this policy by the committee. This policy was last reviewed by the committee on February 23, 2017. This policy had been marked for changes and it had been updated to conform with the 2017 changes to the Standards for the Professional Practice of Internal Auditing. Many of the changes to the Standards were already included in the Board's policy but were re-arranged under different captions of the policy. Many of these changes were already being practiced by Internal Audit.

Mr. Guyton pointed out a couple of things about this policy for the committee's reference. He stated this policy served as the Internal Audit Charter and it established the framework for the Internal Audit function. Paragraph 41.01.2.C. of this policy requires the Internal Auditing ("IA") Department 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 and senior management. Paragraph 41.01.1.C of this policy was the definition of Internal Auditing and it stated: "Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve the system's operations. It helps the system accomplish its objectives by bringing a systematic, disciplined approach 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:

- (a) Integrity,
- (b) Objectivity.
- (c) Confidentiality, and
- (d) Competency.

Mr. Guyton stated this Code of Ethics also contained 12 specific rules of conduct for these principles. Each year all audit staff, including himself, read the Code of Ethics and sign a statement acknowledging their responsibilities to adhere to the Code of Ethics.

The IIA Standards are comprised of Attribute Standards and Performance Standards. The Attribute Standards were as follows:

- (a) Purpose, Authority and Responsibility;
- (b) Independence and Objectivity;
- (c) Proficiency and Due Professional Care; and
- (d) Quality Assurance and Improvement Program.

The Performance Standards are listed as follows:

- (a) Managing the Internal Audit Activity;
- (b) Nature of Work;
- (c) Engagement Planning;
- (d) Performing the Engagement;
- (e) Communicating Results;
- (f) Monitoring Progress; and
- (g) Communicating the Acceptance of Risks.

IIA Standard 1310, Requirements for the Quality Assurance Improvement Program, require 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 August 2015 and was on the agenda for the November 19, 2015 Audit and Compliance Committee meeting.

Following the presentation of this item, Regent Welder called for a motion to approve this item as presented.

On motion of Regent Mendoza, seconded by Regent Taaffe, and by a unanimous vote of the committee members in attendance, the Report on Board of Regents' Policy on Internal Audit – UH System was approved.

At the conclusion of the approval of this action item, Regent Welder called for a motion to place this action item presented to the committee on the Board of Regents' Consent Docket Agenda for final Board approval at the Board of Regents meeting.

On motion of Regent Taaffe, seconded by Regent Mendoza, and by unanimous vote of the committee members present, the following action item was placed on the Board of Regents' Consent Docket Agenda for final Board approval at the Board of Regents meeting held later that day, March 8, 2018, as listed below.

1. Report on Board of Regents' Policy on Internal Audit – UH System

Regent Welder moved to the next item listed on the agenda, Item D, Report on Board of Regents' Policies on Institutional Compliance and Identity Theft Prevention – University of Houston System, and asked Mr. Guyton to present this item.

Mr. Guyton continued his presentation of this item and stated the Audit Committee Planner, Item No. 3.03, required an annual review of the Board of Regents' policies on Internal Audit and Institutional Compliance. There were no suggested changes to the Institutional Compliance and Identity Theft Prevention policies since they were reviewed by the Audit and Compliance Committee on February 23, 2017; and there were no suggested changes to these policies at this time.

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

Mr. Guyton moved on to Item E, the Report on FY2017 External Audit Reports – University of Houston System and stated this item had referred to the following External Audit Reports for FY2017 as noted below:

1. Independent CPA's Report on the Application of Agreed-Upon Procedures of the Athletics Department;
2. The Audit Report and Financial Statements of the Charter School;
3. The Audit Report and Financial Statements of the UHS Endowment Fund;
4. The Agreed-Upon Procedures Report for UH's Cancer Prevention and Research Institute of Texas Grant Awards; and
5. The UH Financial Statements in preparation for the Southern Association of Colleges and Schools' 10-year Accreditation Site Visit.

The UH Public Media Financial Statements had been tabled until the May 24, 2018, Audit and Compliance Committee meeting. The other supplemental information had been excluded from the Endowment Fund financial statements, which included the schedule of noncurrent investments and the schedule of changes in net position by endowment. These schedules were filed 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 their meeting held on January 23, 2018.

Mr. Guyton said that this year the University had two (2) CPA firms engaged in preparing reports for these engagements – Belt Harris Pechacek and BKD. Belt Harris Pechacek conducted the engagements for Athletics, the Charter School and the UH Financial Statements in conjunction with the SACS accreditation site visit; and BKD conducted the engagements for Endowments, Houston Public Media, and the UH Cancer Prevention and Research Institute of Texas Grant Awards. Biographies had been provided for the engagement partners who were present at the meeting and would provide brief presentations on their respective reports.

Mr. Guyton stated that Mr. Robert Belt of Belt Harris Pechacek and Mr. Brian Krueger and Mr. Greg Sissel of BKD, as well as representatives of the Charter School, Patricia Pacquin – Interim Principal; Jeff Collier from the Athletics Department; Senior Associate Vice Chancellor, Raymond Bartlett and UH System Controller, Karin Livingston; and Beverly Rymer from Research would all be available to answer any questions following the presentation of these reports.

Mr. Guyton first introduced Mr. Robert Belt, who presented his reports and below is a brief summary of his remarks.

- Mr. Belt's first report was on the UH Athletics Department, Independent Accountant's Report on the Application of Agreed-Upon Procedures, FY2017. Mr. Belt mentioned that Mr. Collier was present at the meeting and stated that he had done a great job putting together the information for these agreed-upon procedures.
- There were no compliance findings during the project.
- There were two (2) immaterial variances noted; and there were no worthy items to report.
- The second engagement performed, and required by the Texas Education Agency (TEA), was for the UH Charter School. This was a complete audit of the Charter School

as a standalone entity. There were no findings associated with this audit and they believe the report complied with the TEA requirements.

- Mr. Belt stated that the State of Texas Auditor's Office ("SAO") conducts an audit of the University of Houston so the University is not separately audited. The Southern Association of Colleges and Schools requires a review and/or audit in conjunction with their accreditation process which UH was currently undergoing. Therefore, they performed a SACS engagement, which is typically a one-time review engagement for the University of Houston, and other than some upgrading of the notes to ensure they are fully compliant with GAP requirements, there were no changes made in conjunction with that review.

Regent Welder thanked Mr. Belt for performing the audit, attending the meeting and presenting the findings to the committee.

Mr. Guyton introduced Mr. Brian Krueger, from BKD, to present his findings to the committee. Below is a brief summary of his engagements.

- BKD performed the Endowment Fund audit and as far as this audit was concerned they had completed that issue of their unmodified audit opinion. There were no significant issues noted this year and no audit adjustments were required. He thanked Robbie Puryear and her staff for their assistance during this engagement and for another successful audit.
- Mr. Krueger also reported on the UH Cancer Prevention and Agreed-Upon Procedures, FY2017 engagement. The procedures they follow were promulgated by the Cancer Prevention and Research Institute Grant individuals. BKD completed those and did not have any findings and no exceptions noted in the completion of those procedures. He gave appreciation to those staff who also assisted in their audit.
- As far as the completion of BKD's audit of Houston Public Media, Mr. Krueger stated that it should be completed shortly.

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

Mr. Guyton moved to the next agenda item, Item F, the Report on Institutional Compliance Status Report for the Three Months Ended December 31, 2017 – University of Houston System.

This report referred to the Institutional Compliance Status Report for the three months ended December 31, 2017. This report listed activities which included risk assessments, compliance audits, compliance committee meetings, risk mitigation, and hot-line reports. Mr. Guyton stated that with respect to the completion rates for the mandatory training of each of the system institutions, they averaged about 98% which had been better than the previous year.

The remainder of the Institutional Compliance Status Report summarized the information provided by each institution for their respective compliance functions. Ms. Dona Cornell, Vice Chancellor for Legal Affairs and General Counsel announced that Ms. Susan Koch had been appointed as the new Institutional Compliance Officer at the University of Houston. Ms. Cornell stated Ms. Koch has a wealth of information and the University was happy to have her aboard. She introduced Ms. Koch and asked her to please stand and be recognized.

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

Mr. Guyton moved to the next item listed on the agenda, Item G, the Report regarding the Internal Audit Briefing Booklet including Audit Actively Outline – University of Houston System. This item referred to the Internal Briefing Booklet which contained an Activity Outline. This outline indicated that Internal Audit (“IA”) prepared six (6) Internal Audit Reports since the November 16, 2017, 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 2018.

Internal Audit had various special projects in progress. The State Auditor recently issued the FY2017 Statewide Audit and it included recommendations for the UH Title IV Financial Aid Programs. The results of this report will be included on the agenda of the May 24, 2018 Audit and Compliance Committee meeting.

The Executive Summaries of the Internal Audit Reports, as well as the Individual Reports, were listed in the Briefing Booklet as well. These reports addressed areas included in the Board-approved Audit Plan and included a Departmental Review of the University of Houston C.T. Bauer College of Business, an audit of Non-Title IV Financial Aid at each institution, IA’s Annual Certification of UH Athletics Football Attendance, and IA’s Internal Assessment of Internal Auditing. IA’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. IA’s reports on the Non-Title IV Financial Aid and the Internal Assessment of Internal Auditing contained Management Action Plans and they were included in the Briefing Booklet, as well as the overview of all of IA’s recommendations.

Audit Report No. AR2018-09, was IA’s follow-up report and addressed the status of 37 action items in 16 Individual Audit Reports. IA verified that 24 of the action items had been implemented and 13 partially implemented. Updated management responses were obtained on the partially implemented action items. IA had four (4) high risk items in this report related to the Departmental Reviews of the UH-Victoria (UHV) School of Education, Health Professions, and Human Development and they have all been implemented.

Audit Report No. AR2018-10 was IA’s report on Construction and Other Contracts Requiring Board 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 Board approval. This report covered the activity from October 1, 2017 through December 31, 2017. Appendix 1 of this report indicated the scope of the Internal Audit Review. As noted on this appendix, Internal Audit had performed audit procedures on 12 of the projects listed. IA noted no unusual items or other matters that they considered non-compliant with university policies and procedures or State statutes.

Audit Report No. AR2018-11 was IA's Annual Football Attendance Audit which was required by the NCAA. In this report was a table listing the paid attendance for each home game. This year's average attendance was 26,660 (last year's average attendance was 34,011).

Audit Report No. AR2018-12 was IA's Report on Non-Title IV Financial Aid Programs at each of the institutions. The scope of this work included five (5) State of Texas Programs providing approximately \$90 million to UH System students during FY2017. IA had made recommendations to UH-Clear Lake, UH-Downtown, and UH-Victoria to help improve compliance in these programs, and management should implement all of IA's recommendations within the next few months.

Audit Report No. AR2018-13 was IA's Departmental Review Report on the UH C.T. Bauer College of Business. This was a very clean review with no action items noted.

Audit Report No. AR2018-14 was IA's Internal Assessment of Internal Auditing. In this review, IA's senior auditor, Brandee O'Neal made recommendations related to formalizing their engagement documentation of the principles of the Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control – Integrated Framework* and enhance the use of data extraction tools and techniques. Internal Audit intends to implement these recommendations and the ones that are offered by IA's External Peer Review Team. The External Peer Review is scheduled for May 2018.

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

The next item listed on the agenda, Item H, a Report on UHS Financial Statements Certifications – University of Houston System was presented by Mr. Guyton. 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 institution. This agenda item contained these certifications. Prior to the Chancellor and Vice Chancellor for Administration and Finance signing the certifications, the following steps had taken place:

1. UH-Clear Lake, UH-Downtown and UH-Victoria 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. UH and UHSA administrators and unit heads representing 130 departments completed the FY2017 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 FY2017 by UH/UHSA departments were true and correct; and
3. Various responsible persons, including the CFO and Chancellor signed the Certification Letter for UH, UHSA, and UH System Consolidated based on:
 - (a) Department Surveys, which indicated internal controls were adequate within UH and UHSA departments to ensure correct financial transactions,

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- (b) Certifications signed by UHCL, UHD, and UHV representatives; and
- (c) Their knowledge and review of the FY2017 Annual Financial Report for UH, UHSA, and UH System Consolidated.

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

At 10:18 a.m., Regent Welder moved to Section II listed on the agenda, the Executive Session. Regent Welder 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 Welder reconvened the meeting in open session at 10:54 a.m. and stated the Board had met in Executive Session and discussed legal, IT and 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 10:56 a.m.

Others Present:

Renu Khator
Jim McShan
Paula Myrick Short
Dona Cornell
Amr Elnashai
Eloise Dunn Brice
Lisa Holdeman
Richard Walker
Mike Johnson
Ira A. Blake
Juan Sánchez Muñoz
Raymond V. Morgan
Joana Romero
Ed Hugetz
David Oliver
Robert Belt
Beverly Rymer
Brian Thomas
Brenda Robles
Gerry Mathisen

Don Guyton
Raymond Bartlett
Sandra Dahlke
Lindsey Ellis
Karin Livingston
Ray Raulerson
Brian Krueger
Chris Stipes
Ward Martaindale
Usha Mathew
Susan Koch
Paul Roch
Sara Brown
Christine Klocke
Wayne Beran
Lisa Gossett
Susan Koch
Phil Booth
Pam Muscarello
Jeff Collier

Russ Hoskens
Connie Applebach
Patricia Pacquin
Darwin Morrow
Devonte Hill
Ryan Harrison
Dan Maxwell
Don Becker
Sabrina Hassumani
Kevin Draper
Matt Castello
Mike Rosen
Nader Ibrahim
Jon Aldrich
Mike Britt
Ivan Mascano
Greg Sissel
Joe Brueggman
Marquette Hobbs