

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

Thursday, May 18, 2017 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 1:36 p.m. on Thursday, May 18, 2017 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  
Joshua A. Freed, Student Regent, Non-Voting

Member(s) Absent:

Durga D. Agrawal, Chair

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 1:36 p.m. He stated the committee would be presented six (6) agenda items, all of which were 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 Taaffe, seconded by Regent Mendoza, and by a unanimous vote of the regents in attendance, the following minutes from the meeting listed below was approved:

- February 23, 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 if anyone had any questions during his presentations to please let him know.

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AGENDA ITEMS

Mr. Guyton began his remarks stating there were no open points from the February 23, 2017 committee meeting.

The first agenda item introduced by Mr. Guyton was Item-C, a Presentation – Overview of State Auditor’s Office – University of Houston System. Mr. Guyton stated this item referred to a presentation that would be given by Ms. Hillary Eckford, a Certified Internal Auditor and an Audit Manager with the State Auditor’s Office (“SAO”). During Ms. Eckford’s 12-year tenure at the SAO, she has been involved in a variety of higher education audits covering topics such as contracting, benefits proportionality, financial statement audits, financial processes, endowment funds, the Public Funds Investment Act, and federal compliance. Ms. Eckford currently serves as the primary point of contact at the SAO for 44 state agencies and higher education institutions, including the institutions of the University of Houston System. Mr. Guyton introduced Ms. Eckford to the committee who presented an overview of the roles and responsibilities of the State Auditor’s Office. Below is a brief summary of Ms. Eckford’s remarks.

Ms. Eckford stated she was an Audit Manager at the Texas State Auditor’s Office and would be giving an overview of their office to the committee.

- She indicated that the SAO was the independent auditor of the Texas State Government; and was one of five (5) Legislative agencies here in the State of Texas that supports the Texas Legislature; and they offer aid with oversight of the Legislative Audit Committee.
- This Legislative Audit Committee has six (6) members; is a permanent standing committee of the Legislature; and is currently jointly chaired by both the Lieutenant Governor and the Speaker of the House of Representatives.
- The Texas SAO is authorized under Chapter 321 of Government Code to perform audits, reviews, investigations of any entity that receives state funds, including agencies in higher education institutions.
- They ensure that state agencies and institutions and other governmental entities essentially follow state rules and federal requirements and they determine whether their funds are spent appropriately.
- They perform several different types of audits. They do performance audits, financial audits, compliance audits, reviews (which are less rigorous than the previous audits). During their audits they follow Generally Accepted Governmental Auditing Standards and AICPA Standards.
- Their audits also help minimize the risk and increase the quality and the accuracy of the information that is being reported by those state agencies and institutions for decision-making processes and for everyone’s information.
- How they determine what will be audited is based upon their Audit Plan each year. It goes through their Legislative Audit Committee for approval; and it is based on risk. Some audits are statutorily required by Government Code or other statute while others are discretionary, where they are exclusively risk-based; and this process happens in their office locally to determine those risks.
- In addition to the audit function in the SAO, several other functions were noted:

1. An Investigation and Audit Support Team – This team looks into the investigations of the alleged misappropriation or abuse of state funds; and they also manage the fraud hotline and hotline complaints which are available on their website and via phone as well.
  2. A State Classification Team – This team maintains and advises agencies and institutions on the classification plan; and they conduct compliance reviews with that plan as well.
  3. A Risk Assessment Team – This team puts together the Audit Plan for the SAO and reviews risks at different agencies and entities across the state.
  4. Finally, there is the Professional Development Team – This team coordinates and provides continuing professional education for both auditing and accounting staff throughout the state; and is also available on their website.
- Ms. Eckford stated that the university would interact most often with the SAO when they do audits and reviews. The Individual Project Manager and those management teams would contact Internal Auditing (“IA”) and Mr. Guyton in order to coordinate the audits or reviews with the individual institutions. The Board might see engagement letters or management representation letters for review during those times. In addition to these audit processes, SAO also has interactions with Internal Audit; and they receive all of the internal audits that have been conducted by the IA staff at the institutions for review. It was also noted that IA files an annual report with their office as well.
  - The SAO also maintains a fraud hotline. If someone has a reasonable belief that money has been stolen or misappropriated or something fraudulent had occurred, that that information can be reported to the SAO on the fraud hotline. The individual could also call Ms. Eckford directly at the SAO as she is the contact person for the UH System. A brief discussion followed.

Ms. Eckford stated she truly enjoys working with Mr. Guyton and the Internal Auditing staff at the University and thanked the Board for allowing her the time to give her presentation at the meeting.

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

Mr. Guyton moved to Item D, a Report on External Audit Report – University of Houston System – UHS Houston Public Media, Auditor’s Report and Basic Financial Statements for 2016 – University of Houston System which referred to the annual audit report and management letter on Houston Public Media. The auditor’s opinion on the financial statements was unqualified. The Financial Highlights and Analysis Section of the financial statements pointed out large differences between the FY2015 and FY2016 statements. Some key events reflected here included the outsourcing of the underwriting and the sale of the KUHA tower and license. The basic financial statements were addressed and pointed out under current liabilities that the amount due to the University of Houston System increased from \$6.5 million to \$8.7 million. It was also noted that in the Statements of Revenues, Expenses and Changes in Net Position that the operating loss had increased from \$.9 million to \$3.4 million. The Management Letter pointed out a material weakness related to the restatement of beginning net position for a computational error in allocating various components of the pension plan to the stations. It also pointed out some deficiencies in accounts payable cut-off and recording sales and accounts

receivable in a timely manner. Mr. Guyton asked Ms. Lisa Shumate, CEO for Houston Public Media to please give the committee an update on these issues.

Ms. Shumate mentioned that overall, Houston Public Media (“HPM”) was in its strongest position yet to go forward in a way that produces balanced budgets and actually working towards a surplus. If one were to look back to when the deficits started to increase, it would be 2010, she stated. There was a situation where radio and TV were separate and the deficit was approximately \$3.0-\$3.5 million. The acquisition of KUHA had actually impacted the situation in two ways: (a) There were ascending increases in the debt payment for purchasing the station, which was a \$10 million acquisition; and (b) There was the separate tower and transmitter costs that were also incurred. Then on the KUHF side of the house, because there was a need for more programming due to the fact that the format was no longer blended of classical and news, the NPR costs went up. The pre-purchase analysis did not take that into consideration, stated Ms. Shumate, and the support had never really materialized. She stated that each year as the debt payment increased and the transmitter was at the end of its life, the capital costs continued. Unfortunately, it became a situation that could not be righted with financial support.

Ms. Shumate stated that last year, the Board had authorized the Chancellor to conduct the sale of the station for \$10 million. This sale did not occur until July 2016; thus, this is HPM’s first fiscal year without the combined expenses of technical and debt payments for KUHA. She stated it appears that they will have a balanced budget this year and then being able to go forward with increases. They were also in a position of very good ratings which was key on the revenue-side of the equation. Their ratings over perform the market-size. Their radio market-size is 6, but they are actually beating Dallas which has a market-size of 5; and we have the fifth highest ratings in the NPR system.

Ms. Shumate reiterated that on the television-side, they were maintaining which is seen as a good sign, given the fact, that there was so much competition in the television landscape. They have also added a 24/7 kids’ channel that came to them from PBS which had been included in their dues. This was another great service to the market because it does provide curriculum-based, educational programming 24/7.

It was also mentioned that another plaguing problem of HPM was that there was no capital fund; and now that they are raising money, they are mindful that not every cent can go to operations. Therefore, they started a capital fund which now has \$900,000. Their goal is to continue working very closely with University Advancement and raise money for the capital fund; keep their operational costs at a manageable level; always anticipating increases they cannot control; and keeping their nonrecurring costs under what they know for certain they can control. This should enable them to pay their deficit and be on much better financial footing. A brief discussion followed.

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

The next item addressed by Mr. Guyton was Item E, a Report on External Audit Report – University of Houston System – State Auditor Report 17-314 – Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2016 (excerpts). This item

referred to the University of Houston System (“UHS”) excerpts of the State Auditor’s recently issued reports on the Federal and Financial Portions of the State-wide Single Audit Report for FY 2016. On the first three (3) pages of this report was a listing of key points in those reports as they related to the UHS entities. The auditor’s fieldwork at the UHS consisted of an audit of the University of Houston’s (“UH”) Federal Financial Aid Programs and follow-up procedures on prior year audit findings at UH. Some of the State Auditor’s recommendations for UH had been implemented and the State Auditor’s Office will perform follow-up procedures this year to determine the status of their recommendations.

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

Mr. Guyton moved to the next listed on the agenda, Item F, a Report on Institutional Compliance Status Report for the Three Months Ended March 31, 2017 – University of Houston System. Mr. Guyton stated this report referred to the Institutional Compliance Status Report for the three (3) months ended March 31, 2017. This report listed the activities which included risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports. In the UH System section of the report there was a comment that Mr. Guyton brought to the attention of the committee, which stated that Internal Audit had noted that none of the UH System institutions were in compliance with the reporting requirements of the Texas Education Code, Sec. 51.402 requiring them to report to the Governing Board within 30 days at the end of each academic year, the academic duties and services performed by each faculty member during the academic year showing evidence of compliance with the requirements of the Board’s workload policy. Mr. Guyton asked Dr. Paula Myrick Short, Senior Vice Chancellor and Provost for Academic Affairs, to please provide the committee with an update on the status of compiling these reports.

Dr. Short stated that when this came to their attention they were caught by surprise. Evidently, the Texas Higher Education Coordinating Board (“THECB”) had been requiring this report and somewhere before 2012 they had dropped this requirement; therefore, it had been concluded that this report was no longer needed. What they had failed to realize was that it was still Texas Education Code and that the Faculty Workload Report was still something that needed to be updated and provided to the Board on an annual basis. Dr. Short stated that all four (4) institutions were now aware of this requirement and a plan was currently underway to bring this report to the Board in August 2018 and annually in August thereafter. The material comprising this report must be for an academic year said Dr. Short; therefore, it will cover the upcoming academic year that will begin in the fall.

Dr. Short also reiterated that at the University of Houston was currently in the process of revising the Faculty Workload Policy; and that all four (4) of the System institutions must have a Faculty Workload Policy in place in order to create the report that is required by Texas Education Code, Sec. 51.402. She stated that, in most cases, they had determined that they had not been collecting the granular data that was required down to the department level for this report. Therefore, they are revising the Faculty Workload Policy, taking it through the shared governance processes which will be completed in the fall and then this revised policy will be brought back to the Board in December 2017 for approval.

Mr. Guyton stated that 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 required no committee action.

The next item presented by Mr. Guyton was Item G, a Report on Internal Auditing Briefing Booklet, including Audit Activity Outline/Audit Plan Status, Internal Audit Reports, Internal audit Quality Assurance Improvement Program Report – University of Houston System. Mr. Guyton stated this item referred to the Internal Audit Briefing Booklet. The Briefing Booklet also contained an activity outline and from this outline Internal Audit (“IA”) prepared six (6) Internal Audit Reports since the February 23, 2017, Audit and Compliance Committee meeting. Also listed was a Co-sourced IT Audit on Physical Security which was considered confidential under the provisions of the Texas Government Code, Section 552.139. The Executive Summaries of these reports, as well as the Individual Reports, were listed in the Briefing Booklet. These reports addressed areas included in the Board-approved Audit Plan and included Departmental Reviews of the UH-Downtown Offices of the President and University Advancement and Employment Services and Operations, the UH-Clear Lake Office of the President and the UH-Victoria School of Business Administration and IA’s reports on construction and other contracts requiring Board approval and follow-up activity. These reports will be submitted to the Governor’s Office of Budget and Planning, the Legislative Budget Board, the Sunset Advisory Committee and the State Auditor’s Office, as required by the Texas Government Code. Some reports contained Management Action Plans and they were included in the Briefing Booklet. Departmental Reviews contained Management Action Plans and were included in the Briefing Booklet, along with an overview of all of IA’s recommendations.

Audit Report No. 2017-24 was IA’s follow-up report and addressed the status of 30 action items in 12 Individual Audit Reports. IA verified that 19 of the action items had been implemented and 11 were partially implemented. Updated management responses were obtained on the partially implemented and not implemented action items. IA had two (2) high risk items in this report related to Facilities, Planning and Construction and these items should be implemented in the next few months.

Audit Report No. 2017-25 was IA’s report on construction and other contracts requiring Board approval. This is a standing report in IA’s Briefing Booklet, similar to their Follow-up Status Report. The objective of this review was to determine whether the major construction and other contracts requiring Board approval complied with Institutional policies and State statutes, particularly the Texas Education Code. This report covered the activity from January 1, 2017 through March 31, 2017, and as noted in Appendix 1, IA had performed audit procedures on 14 of the projects listed. The dates listed in the Appendix in red were dates added to this section since the last report was issued in February 2017. IA noted no unusual items or other matters that they considered non-compliant with university policies and procedures or State statutes.

Audit Report No. 2017-26 through Audit Report No. 2017-29 were Reports on Departmental Reviews on certain units of UH-Downtown, UH-Clear Lake and UH-Victoria. IA noted no matters that they considered to be significant engagement observations in these reports. Three (3) of these reports contained Management Action Plans.

Referring back to the Activity Outline and as noted on Items 2, 3 and 4 of the Outline, Mr. Guyton stated there were various scheduled audits in the Fieldwork in Progress or in the Planning Phase. These audits were included in the Board approved Internal Audit Plan for FY2017.

The Audit Plan Status was also noted and the footnotes indicated the status on the other audit areas.

IA's report on their Quality Assurance Improvement Program was also included in the Briefing Booklet. This was a requirement of the Institute of Internal Auditors *Standards*. This report lists 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 required no committee action.

The last information item addressed by Mr. Guyton was Item H, a Report on UH System Support Organizations – University of Houston System- Compliance Review of UH System Support Organizations and UH System Support Organization Reports. Mr. Guyton stated this item referred to the Compliance Review of UH System Support Organizations and the UH System Support Organizations Report. The Compliance Review of UH System Support Organizations indicated the status of the receipt of this information. The Compliance Review was prepared by UH System Advancement and the accompanying compilation of financial information was prepared by UH System Financial Reporting. It was noted that the only items that IA had not received were the tax return and Conflict of Interest Policy and Certification of Trustee Compliance from the Houston Public Media Foundation. The UH System Support Organizations Report was a compilation of information from audited financial statements, IRS Forms 990, investment reports and other information furnished to UHS by the Support Organizations. The purpose of this report was to provide information on Support Organizations' activities and the Board of Regents and UHS's responsibilities with respect to the foundations. As explained in the report, the Regents' fiduciary responsibilities to the UH System related to these organizations was addressed in agreements between the System and the Organizations. In meeting the requirements of the Board of Regents' Policy on Support Organizations, the System implemented a Policy on Support Organizations requiring them to furnish certain information to the System. This requirement was spelled out in our agreements with the Support Organizations.

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

At 2:21 a.m., Regent Welder moved to Section II listed on the agenda, the Executive Session and that the committee would go into Executive Session pursuant to the sections of the Texas Government Code listed on page 3 of the committee's agenda.

### **Executive Session:**

Regent Welder reconvened the meeting in open session at 4:20 p.m. and stated the Board had met in Executive Session and discussed legal and personnel matters. There was no action taken

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by the Board in Executive Session.

There being no further business to come before the committee, this meeting was adjourned at 4:20 p.m.

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Others Present:

Renu Khator  
Paula Myrick Short  
Dona Cornell  
Ramanan Krishnamoorti  
Eloise Dunn Brice  
Richard Walker  
Mike Johnson  
Raymond V. Morgan  
Juan Sánchez Muñoz  
William Staples  
Hunter Yurachek  
Mike Rosen  
Caesar Moore  
Don Price  
David Gratvol  
Marquette Hobbs

Don Guyton  
Sandra Dahlke  
Connie Applebach  
Macie Kelly  
Mike Glisson  
Dan Maxwell  
Devi Bala  
David Bradley  
Ronald Harris  
Allen Hill  
Cathy Horn  
Shannon Harris  
Ray Raulerson  
Phil Booth  
Matt Castillo  
Brenda Robles

Russ Hoskens  
Raymond Bartlett  
David Ellis  
Lisa Shumate  
Hilary Eckford  
Michael Benford  
Eric Gerber  
Malcolm Davis  
David Oliver  
Lawrence Wheeler  
Tomikia LeGrande  
Jon Aldrich  
Joe Brueggman  
Nader Ibramhim  
Brian Thomas  
Gerry Mathisen