

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

Thursday, August 25, 2016 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 10:39 a.m. on Thursday, August 25, 2016 at the Hilton University of Houston, 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
Durga D. Agrawal, Regent
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

In accordance with a notice being timely posted with the Secretary of State and there being a quorum present, Chair of the Committee, Roger F. Welder called the meeting to order. He stated the committee would be presented eight (8) agenda items – four (4) action items and four (4) information items.

At 10:42 a.m., Regent Welder stated he was taking the agenda out of order, and for the first order of business, the committee would go into Executive Session pursuant to the sections of the Texas Government Code listed on page 4 of the committee’s agenda.

Executive Session:

Chair of the Committee, Regent Welder reconvened the meeting in open session at 11:22 a.m. and stated that the Board had met in Executive Session and discussed legal matters. There was no action taken by the Board in Executive Session.

Regent Welder stated the next item to be addressed and considered by the committee would be the approval of the minutes from the May 19, 2016, Audit and Compliance Committee meeting.

Action Items:

1. Approval of Minutes – Item B

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

- May 19, 2016, 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 agenda items; and if anyone had any questions during his presentation of the items to please let him know.

AGENDA ITEMS

Mr. Guyton stated that there was one (1) open point from the August 20, 2015, Audit and Compliance Committee meeting and two (2) open points from the May 19, 2016 meeting.

The open point from the August 20, 2015 meeting was to implement a mechanism to evaluate vendor past performance. The UH Controller had developed a process to evaluate \$1,000,000 and greater contracts at the end of the contract. This evaluation included whether the vendor complied with the financial provisions of the contract, met delivery schedules, provided quality goods or services, and met the university's Historically Underutilized Business ("HUB") goals. Based on the evaluation results, points would be added to or subtracted from the vendor's total score for future Request for Proposals ("RFPs"). Contract Management System software was being purchased this month (in August 2016) and would be implemented in the next couple of months.

The two (2) open points from the May 19, 2016 meeting were the implementation of the Board of Regents' policy on Public Safety and to determine if changes were warranted to System Policies for Succession Planning. The implementation of the Board's Public Safety Policy had begun with an analysis of Police policies at each Police Department. An Action Plan was to be developed along with a detailed report and changes to the System Policy on Police Operations would follow. Internal Auditing ("IA") would keep following up on this item to let the Board know the status. The Chief Human Resource Officers at each institution were reviewing critical positions for succession planning and will update the System's Policy on the Employee Training Program to incorporate Succession Planning language in the policy. After the policy was modified, it would require succession planning for all critical positions.

The first agenda item presented by Mr. Guyton was Item-C, a Report on Long-Range Internal Audit Plan for Fiscal Years 2017-2019 – University of Houston System - Audit-C. Mr. Guyton stated this item contained the final draft of the Long-Range Internal Audit Plan for Fiscal Years 2017-2019 for the Board's review and approval. An Executive Summary of the plan was found in Section 1; the Resource and Budget information was in Section 2; and the listing of the Audit Team Members was found in Section 3. The plan also contained a risk assessment for all components. Mr. Guyton stated that risk assessment techniques had been 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. IA has prepared a separate risk analysis for each campus. In preparing the Audit Plan and Risk Analysis, 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 timeframe.

The Internal Audit resources and budget were described in the Audit Plan in the Executive Summary which was found in Section 1; and the budgeted hours were calculated in Section 2. It was also noted in the Organization Chart of the Internal Auditing Department, that they had one (1) vacant administrative position, but this was now filled.

Mr. Guyton then introduced the following Audit team members to the committee who had been in attendance at the meeting:

Russ Hoskins	Sandra Dahlke	Ruth Corrigeux
Sergio Perez	Tamara Davis	Brandee O'Neal
Isimeme Emafor	Ray Hale	Dia Martinez
Melissa Norman	Eric Porter	

Unfortunately, Mr. Tony Moreno and Ms. Emily Tran were unable to attend the meeting due to an audit they were performing at UH-Victoria in Victoria, TX.

Regent Welder thanked the Audit team members for attending the meeting and said that as a committee, the Board rarely had the opportunity to thank them for the important work that they do for the University. Their work was incredibly important to the success of the Board of Regents; it was a huge undertaking; and their efforts made were often overlooked. So on behalf of the entire System, Regent Welder thanked them for all that they do. Chairman of the Board, Tilman Fertitta also stated he agreed with Regent Welder and remarked how very important Audit and Compliance was and how much he appreciated their work.

Mr. Guyton stated that the budget for this year also included recurring funding of \$100,000 per year for their co-source arrangement for additional IT audit resources. IA's unexpended fund balances were also helping to fund the additional IT audit resources. With these additional resources and the addition of the resources for the Audit Manager position funded during FY 2016, IA believes the resources dedicated to the Internal Audit Program was adequate. This Audit Plan, including a summary of the Internal Audit Resources, was being presented to the committee for their review and approval prior to the Board's final approval at the meeting to be held later in the day.

On motion of Regent Madison, seconded by Regent Mendoza, and by a unanimous vote of the committee members in attendance, the Report on Long-Range Internal Audit Plan for Fiscal Years 2017-2019 – UH System was approved.

The next action item presented by Mr. Guyton was Item D, a Report on Board of Regents Policies 42.01, Institutional Compliance, and 55.01, Contracts – University of Houston System, Audit-D. This item referred to two (2) Board of Regents' policies that required revisions as a result of Senate Bill 20 of the 84th Legislature which added Section 51.9337 to the Texas

Education Code. These policies were 42.01, Institutional Compliance and 55.01, Contracts. This section of the Texas Education Code requires an annual internal audit to determine whether the Board of Regents and institutions have all the policies in place required by this section of the Texas Education Code. IA's Audit Report on this engagement was included in the Internal Audit Briefing Booklet and would be discussed later on the agenda. The suggested changes to the Board's policies were needed to address the requirements of the Texas Education Code; and below in italics and bold print were the recommended changes:

42.01 – Institutional Compliance

The Chancellor, as Chief Executive Officer of the System, is responsible for ensuring the implementation of an institutional compliance program for the System *designed to promote ethical behavior and ensure compliance with all applicable policies, laws, and rules governing higher education, including research and health care to the extent applicable*. Accordingly, the System-wide Compliance Officer prepares an executive summary of all institutional compliance activity of the component institutions.

55.01.5 Contract Administration

The Chancellor, as Chief Executive Officer of the System, is responsible for implementing a contract administration function which is designed to ensure compliance with all applicable policies, laws and regulations and at a minimum shall:

- A. Include a contract administration handbook that provides consistent contracting policies and practices and contract review procedures, including a risk analysis procedure which is subject to contract review procedures and a contract review checklist that includes:
 - 1. A description of each step of the procedure that each institution must use to evaluate and process contracts;*
 - 2. A description of each process that must be completed before contract execution and;*
 - 3. A value threshold that initiates the required review by the Office of General Counsel unless the contract is a standard contract previously approved by the Office of General Counsel.**
- B. Require training for officers and employees authorized to execute contracts or exercise discretion in awarding contracts, including training in ethics, selection of appropriate procurement methods, and information resources purchasing technologies.*

On motion of Regent Mendoza, seconded by Regent Madison, and by a unanimous vote of the committee members in attendance, the Report on Board of Regents Policies 42.01, Institutional Compliance, and 55.01, Contracts – UH System was approved.

Mr. Guyton moved to the next action item, Item E, a Report on Audit and Compliance Committee Charter and Checklist – University of Houston System – Audit-E. 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 listed on the Audit and Compliance Committee Charter and Checklist, requires an annual review and update. There were no suggested changes to this document which had been last approved by the Audit and Compliance Committee at its August 2015 meeting.

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

At the conclusion of the approval of the last item presented, Regent Welder called for a motion to place all three (3) action items 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 McElvy, seconded by Regent Taaffe, and by a unanimous vote of the committee members present, the following three (3) action items were placed on the Board of Regents' Consent Docket Agenda for final Board approval at the Board of Regents meeting held later that day, August 25, 2016, as listed below.

1. Report on Long-Range Internal Audit Plan for Fiscal Years 2017-2019 – UH System;
2. Report on Board of Regents Policies 42.01, Institutional Compliance, and 55.01, Contracts – UH System; and
3. Report on Audit and Compliance Committee Charter and Checklist – UH System.

Following the approval of these three (3) action items, Regent Welder asked Mr. Guyton to continue with his presentations.

Mr. Guyton then moved to the next action item, Item F, a Report on Audit and Compliance Committee Planner – University of Houston System – Audit-F. This report referred to the Audit and Compliance Committee Planner. The Audit and Compliance Committee Planner lists all actions required of the Audit and Compliance Committee with recommended schedules for these activities. Item No. 2.04 in the Audit and Compliance Committee Planner requires the committee to approve this Planner for the upcoming year. There were no suggested changes to the planner since it was approved by the Audit and Compliance Committee one year ago.

On motion of Regent Mendoza, seconded by Regent Madison, and by a unanimous vote of the committee members present, the Report on Audit and Compliance Committee Planner – UH System was approved.

This item required the approval of the Audit and Compliance Committee only and not the full Board.

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The next item addressed by Mr. Guyton was Item G, a Report on Title IX – Sexual Misconduct Update – University of Houston System – Audit-G. Mr. Guyton stated this item referred to a Report on Title IX – Sexual Misconduct Update. Mr. Guyton introduced Dr. Richard Baker, Assistant Vice Chancellor and Vice President, Office of Equal Opportunity Services and Chief Title IX Officer, who gave a presentation on this report. Below is a brief summary of his remarks.

Dr. Baker began his presentation by introducing his staff in the Office of Equal Opportunity Services to the committee as follows:

Daniela A. Monkiewicz, Director of Investigations
Erika Harrison, Equal Opportunity Specialist II
Mandisa Oliver-Hughes, Equal Opportunity Coordinator
Ian Armstrong, Equal Opportunity Specialist
Angela Miranda-Clark, Equal Opportunity Coordinator (was not in attendance)

Dr. Baker briefly outlined Title IX and stated “no person in the United States shall, on the basis of sex, be excluded from participation in, be denied the benefits of, or be subject to discrimination under any educational programs or activity receiving federal financial assistance” as noted in Title IX of the Education Amendments of 1972. A complete copy of Dr. Baker’s presentation may be found at the following link:

<https://v3.boardbook.org/Public/PublicItemDownload.aspx?ik=39249558>.

This item was presented for information only; and a copy of Dr. Baker’s presentation has been filed in the Board office.

Mr. Guyton moved to the next item on the agenda, Item H, a Report on Internal Audit Briefing Booklet including Audit Activity Outline/Audit Plan Status – University of Houston System.

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 seven (7) Internal Audit Reports since the May 19, 2016, Audit and Compliance Committee meeting. 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 for Fiscal Year 2016 and included a report required by the Texas Education Code on Procurement and Ethics Policies; a report required by the Appropriation Act of the 84th Legislature on State Benefits Proportionality; a report on University of Houston (“UH”) Designated Tuition Set Aside; Departmental Reviews of the UH Office of Academic Affairs and Provost; and UH-Clear Lake (“UHCL”) Office of the Provost; a Review of Construction and Other Contracts requiring Board of Regents’ approval; and IA’s quarterly 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, as required by the Texas Government Code. Two (2) of these reports contained Management Action Plans and were also included in the Briefing Booklet, along with an overview of all of IA’s recommendations.

Audit Report No. 2016-26 was Internal Audit’s follow-up report and addressed the status of 17 action items in 10 Individual Audit Reports. IA verified that eight (8) of the action items had

been implemented and nine (9) partially implemented. Updated management responses have been obtained on the partially implemented action items; and IA had no high risk items in this report according to Mr. Guyton.

Audit Report No. 2016-27 was IA's Review of Construction and Other Contracts requiring Board of Regents' 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 April 1, 2016 through June 30, 2016; and Appendix 1 of this report indicated the scope of the Internal Audit Review. IA had one (1) procurement process where there was no evidence that the Vice Chancellor/Vice President had approved the short list but this had no effect on the final result.

Audit Report No. 2016-29 was IA's report on UH Designated Tuition Set Aside. When the Texas Legislature deregulated tuition, it had stipulated that a certain percentage of future tuition increases were to be set aside for scholarships for resident students with financial need. IA had a significant engagement observation in this report and they had determined that \$43.5 million of set aside funds had been transferred to merit base scholarships from FY2013 – FY2016 and that \$3.4 million of these transferred set aside funds had been awarded to ineligible recipients. Management restored the \$3.4 million back to the set aside cost center from other sources and took action to help ensure that set aside funds would not be comingled with other funds and awarded only to eligible students.

Audit Reports No. 2016-28 and No. 2016-30 were IA reports on the Departmental Reviews of UH Office of Academic Affairs and Provost and UH-Clear Lake Office of the Provost. Internal Audit had not identified any significant issues in these reviews. The UH Provost Office manages over 450 cost centers in five (5) administrative units. The UH Provost Office Division Business Administrator not only helps ensure that key administrative tasks have been performed in that office but also had a monitoring process to help ensure that all of those tasks had been performed in the colleges. IA noted relatively few instances of non-compliance with this unit.

The UHC Office of the Provost manages a little over 300 cost centers in 22 administrative units. IA had shared UH's Business Management Policies with the Provost for their consideration; and IA was proposing a System Administrative Memorandum ("SAM") on Business Administration that should help clarify roles and responsibilities for Business Management throughout the System.

Audit Report No. 2016-31 was IA's State Benefits Proportionality Review. This review for years FY2012 – FY2014 was required by the General Appropriations Act of the 84th Legislature and was performed using the methodology approved by the State Auditor's Office. The General Appropriations Act provides that the state will fund the benefits of our employees in the same proportion as the general revenue appropriated to our institutions funds our total payroll and maintenance and operating costs. Internal Audit determined that the University of Houston System ("UHS") institutions did not comply with all the requirements of the General Appropriations Act; and in some cases, the state paid too much, and in others, too little for our

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employee benefits. Most of these amounts were insignificant but each institution is required to work with the State Comptroller's Office and refund the state, accordingly. The University of Houston ("UH") had the largest over and under payments. In FY2012, UH had an overpayment of \$260,000; in FY2013 – UH had an underpayment of \$22,000; and in FY2014 – UH had an underpayment of \$340,000. All of the errors were outlined in the report. IA recommended that the UHS management work with each institution to standardize procedures to correctly compute the amounts of benefits that the state should pay by completing the State Comptroller's required reporting form. Management was implementing this recommendation.

Audit Report No. 2016-32 was IA's Report on their Review for Compliance with Section 51.9337 of the Texas Education Code. This section, related to procurement, had been added to the Code by Senate Bill 20 in the last Legislative session. This section requires the Chief Auditor of an Institution of Higher Education to annually assess whether the institution had adopted the rules and policies required by this section and submits a Report of Findings to the State Auditor. This report contained a listing of the policy requirements together with the appropriate references to the Board of Regents and System policies. In IA's opinion, subject to the approval by the Board of Regents of certain policy amendments, which were discussed earlier in the meeting, the Board of Regents and the System has adopted all rules and policies required by this section of the Texas Education Code.

Mr. Guyton referred back the Activity Outline and as noted on Items 2, 3 and 4 of the outline there were various scheduled audits in the reporting phase, fieldwork in progress phase, or in the planning phase. These audits were included in the Board-approved Internal Audit Plan for 2016. IA also had various special projects in progress. FEMA was still conducting audits of UH's reimbursements for Hurricane Ike. The State Auditor's Office has started its annual statewide audit of UH's Federal Financial Aid Programs. The US Department of Education has performed their on-site fieldwork for the Title IV Program Review during May 2013; IA had received the preliminary report during August 2015, and they filed their formal response during October 2015.

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

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

Mr. Guyton presented Item I, a Report on Institutional Compliance Status Report for the three months ended June 30, 2016, and Annual Plan for FY2017 – University of Houston System, Audit I. Mr. Guyton stated this item referred to the Institutional Compliance Status Report for the three months ended June 30, 2016, and each institution's Annual Compliance Plan for FY2017. This report lists activities for the three months ending June 30, 2016, which include risk assessments, compliance audits, compliance committee meetings, risk mitigation, and hot-line reports. There were 28 hot-line reports received during this timeframe; and many of these reports were Human Resource-related issues. There were 17 unresolved reports as of June 30, 2016. At the completion of this fiscal year, IA will prepare an annual report on all reports received during the year which would categorize the types of reports received. This report will be on the December 1, 2016, Audit and Compliance Committee meeting. During September,

the Chancellor will send out the annual notice to all UHS employees to report non-compliance, fraud and sexual misconduct which also notifies every one of the anonymous reporting mechanism.

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

The last item presented by Mr. Guyton was Item J, a Report on External Report – Texas Comptroller of Public Accounts Post Payment Audit of the University of Houston System Administration – University of Houston System, Audit-J. Mr. Guyton stated this item would be tabled until the next Audit and Compliance Committee meeting to be held on December 1, 2016.

There being no further business to come before the committee this meeting was adjourned at 12:09 p.m.

Others Present:

Renu Khator	Don Guyton	Russ Hoskens
Jim McShan	Sandra Dahlke	Raymond Bartlett
Paula Myrick Short	Ruth Corrigeux	Chris Stanich
Dona Cornell	Jesse Pisors	Dana Rooks
Lisa Holdeman	Devi Bala	Sabrina Hassumani
Ramanan Krishnamoorti	Abner Fletcher	Pam Muscarello
Jason Smith	Mike Glisson	Glen Houston
Eloise Dunn Stuhr	Caesar Moore	Valerie Coleman-Ferguson
Richard Walker	David Bradley	Richard Baker
Mike Johnson	Dan Maxwell	Mike Rosen
Raymond V. Morgan	Erika Harrison	Ian Armstrong
Michael A. Olivas	Jane Ottinger	Cathy Horn
William Staples	David Oliver	Ed Hugetz
Iggy Harrison	Scott Moore	Maureen Croft
Wayne Beran	Brett Collier	Katie Brown
Jon Aldrich	Daniela Monkiewicz	Sergio Perez
Phil Booth	Mandisa Oliver-Hughes	Ray Hale
Erika Harrison	Tamara Davis	Isimeme Emafor
Dia Martinez	Melissa Norman	Brandee O’Neal
Eric Porter	Brian Thomas	Brenda Robles
Marquette Hobbs	Gerry Mathisen	