

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

Thursday, February 19, 2015 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 2:28 p.m. on Thursday, February 19, 2015 at the University of Houston, Student Center Ballroom, Room 210, Second Floor, 4800 Calhoun Road, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

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

Non-Member(s) Present

Spencer D. Armour, III, Regent
Jarvis V. Hollingsworth, Regent
Welcome W. Wilson, Jr., Regent
Asit R. Shah, 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.

AGENDA ITEMS

Action Item(s):

1. Approval of Minutes – Item B

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

- November 14, 2014, Audit and Compliance Committee Meeting

Following the approval of the minutes, Regent Welder stated that the committee would be presented three (3) action items for their consideration and approval and presented six (6) items for information only. Regent Welder introduced Mr. Don Guyton, Chief Audit Executive, who presented these items before the committee.

Mr. Guyton stated there were no open points from the November 14, 2014 Audit and Compliance Committee meeting that would be discussed at this meeting; and moved to the first action item on the committee agenda, Item C, the Report on Board of Regents Policy Amendments, 53.04, Approval of Construction Projects and 55.01, Contracts – University of Houston System.

Mr. Guyton presented Item C which referred to amendments to Board of Regents Policy, 53.04, Approval of Construction Contracts and 55.01, Contracts. The amendment to the policy on approval of construction contracts was being proposed due to the fact that the current policy was outdated because the Texas Higher Education Coordinating Board no longer approves construction projects, but it does review them if they are greater than \$10 million. The amendment to the contracts policy is proposed because the Board of Regents' policies do not define the requirement for approval of revenue contracts; but for all practical purposes, these contracts are brought to the Board of Regents for their approval. Below in italics and bolded are the two amendments that were considered.

53.04 Approval of Construction Projects

The Executive Vice Chancellor for Administration and Finance shall present for approval to the Board projects for new construction or major repair and rehabilitation of buildings and facilities when the total cost is equal to or greater than **\$10,000,000**. The Board will be presented with the project, budget, schedule and, if applicable, a program and schematic design. Once a project is **reviewed** by The Higher Education Coordinating Board, the Board delegates to the Chancellor the authority to negotiate and execute all appropriate contracts and easements required to accomplish the project provided it is within the approved scope and budget of the project. In the event project budget increases do not exceed an aggregate amount of \$1,000,000, additional approval is not required by the Board. **(02/19/15)**

55.01 Contracts

F. any single procurement **or revenue** contract for any equipment, goods, and services, not specified above, which is expected to exceed \$1,000,000 in a fiscal year with exception of contracts that fall within and are a part of approved construction projects set forth in Section 53.04 or investment agreements; **(02/19/15)**

On motion of Regent Taaffe, seconded by Regent Madison, and by a unanimous vote of the members in attendance, the Report on Board of Regents Policy Amendments, 53.04, Approval of Construction Projects and 55.01 – Contracts – University of Houston was approved.

The next item addressed by Mr. Guyton for the committee's consideration was Item D, the **Report on Board of Regents' Internal Audit, Institutional Compliance and Identity Theft Prevention Policies – University of Houston System**. This item referred to the Board of Regents' Internal Audit, Institutional Compliance and Identity Theft Program Policies. The Audit Committee Planner, Item Number 3.03, requires an annual review of the Board of Regents' policies on Internal Audit and Institutional Compliance. Mr. Guyton stated there was one proposed change to the Internal Audit Policy related to the Internal Audit's written responses to the State Auditor's Office's requests of Internal Audit to investigate reports of suspected fraud, waste and abuse and/or ineffective operations at the University of Houston System which would require these reports to be distributed to the Chair of the Audit and Compliance Committee and the Chancellor. Below in bold and italics is the recommended change to this policy for reference.

E. Internal Audit's written responses to the State Auditor's Office's requests of Internal Audit to investigate reports of suspected fraud, waste, abuse and/or ineffective operations at the University of Houston System will be distributed to the Chair of the Audit and Compliance Committee and the Chancellor. (021915)

Mr. Guyton Explained that this policy serves as the Internal Audit Charter and it establishes the framework for the Internal Audit function. In addition, this policy requires the Internal Auditing Department to adhere to the Standards for the Professional Practice of Internal Auditing and the IIA Code of Ethics. 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. Mr. Guyton provided a detailed explanation of these items.

IIA Standard 1310, Requirements for the Quality Assurance Improvement Program, requires the program to include both internal and external assessments. Every three (3) years, the Internal Auditing Department undergoes both an internal assessment and an external peer review to determine whether the department adheres to these Standards. The last peer review report was issued in June 2012 and was on the agenda for the August 15, 2012, Audit and Compliance Committee meeting. Internal Audit plans to have the next peer review during August 2015. The IIA Practice Advisory for the standard on Quality Assurance Improvement Programs states that the Chief Audit Executive should at least annually report to senior management and the Board on the quality program efforts and results. The IIA has now issued a practice guide to explain what this report should contain. Internal Audit plans to include this report in the agenda materials for the May 21, 2015, Audit and Compliance Committee meeting.

On motion of Regent Taaffe, seconded by Regent Madison, and by a unanimous vote of the members in attendance, the Report on Board of Regents' Internal Audit, Institutional Compliance, and Identity Theft Prevention Policies – University of Houston System was approved.

The last action item presented by Mr. Guyton was Item E, the Report on Amendment to Long Range Internal Audit Plan for FY2015-2017 – University of Houston System. Mr. Guyton stated that this report referred to an amendment to the Long Range Internal Audit Plan for FY 2015 – 2017. This amendment expands Internal Audit's coverage of the review of the process for awarding construction contracts requiring Board approval to other expenditure and revenue contracts greater than \$1,000,000 which now require Board approval after amendment of Board of Regents Policy 55.01, Contracts.

On motion of Regent Taaffe, seconded by Regent Madison, and by a unanimous vote of the members in attendance, the Report on Amendment to Long Range Internal Audit Plan for FY2015-2017 – University of Houston System was approved.

Following the committee approval of this item, Regent Welder called for a motion to place the three (3) action items presented and approved by the committee on the Board of Regents' Consent Docket Agenda for the Boards final approval.

On motion of Regent Taaffe, seconded by Regent Mendoza, and by a unanimous vote of the members in attendance, the following three (3) action items, unanimously approved by the committee will be placed on the Board of Regents' Consent Docket Agenda for final Board approval at the Board of Regents meeting held later today, February 19, 2015, as follows:

1. Report on Board of Regents Policy Amendments, 53.04, Approval of Construction Projects and 55.01, Contracts – University of Houston System;
2. Report on Board of Regents' Internal Audit, Institutional Compliance, and Identity Theft Prevention Policies – University of Houston System; and
3. Report on Amendment to Long Range Internal Audit Plan for FY2015-2016 – University of Houston System.

Information Item(s):

Mr. Guyton introduced the next item for information, Item F, External Audit Reports – University of Houston System:

- UH Athletics Department Independent Accountants' Report on the Application of Agreed-Upon Procedures for Year-ended August 31, 2014;
- Audit Report and Financial Statements, University of Houston Charter School, FY2014;
- Independent Accountants' Report on Applying Agreed-Upon Procedures on UH Cancer Prevention and Research Institute;
- UHS Public Media, Auditor's Report and Basic Financial Statements for FY2014; and
- UHS Endowment Fund, Auditor's Report and Basic Financial Statements for FY2014.

Mr. Guyton stated these reports referred to five (5) External Audit Reports for Fiscal Year 2014. The other supplemental information had been excluded from the Endowment Fund financial statements. This information included the schedule of noncurrent investments and the schedule of changes in net assets by endowment. These schedules are on file in the Board of Regents' Office with the complete sets of financial statements. The financial statements of the Charter School were approved by the Charter School Board at its meeting held on January 26, 2015. The Board of Regents approved the creation of the Charter School Board during FY 2014, and this was the first time that the Charter School approved their financial statements. Ms. Dona Cornell, Vice Chancellor for Legal Affairs and General Counsel, commented on new Charter School Board and the recent training provided to the board members by the General Counsel's office.

Mr. Guyton said that this year there were two (2) CPA firms engaged to prepare the reports for these engagements, Belt, Harris, Pechacek and BKD. Belt, Harris, Pechacek conducted the engagement for Athletics, Charter School and CPRIT grants; and BKD conducted the engagements for Public Media and Endowments. The committee had been provided copies of the biographies of the engagement partners who were present at the meeting to provide brief presentations on their reports. Mr. Guyton introduced Mr. Robert Belt of Belt, Harris, Pechacek and Mr. Greg Sissel and Mr. Brian Kruger of BKD who presented their reports on their respective engagements.

Regent Mendoza asked Mr. Guyton how were the outside auditors chosen. Mr. Guyton stated a Request for Proposal (“RFP”) process was completed every three (3) years.

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

Mr. Guyton moved to the next item for information, Item G, the Report on External Audit Reports - Texas Comptroller of Public Accounts Post Payment Audit of the University of Houston and University of Houston-Clear Lake – University of Houston System. This item referred to External Audit Reports, Texas Comptroller of Public Accounts Post Payment Audit of the University of Houston (UH) and the UH-Clear Lake (UHCL). The scope of these audits included a sample of payroll, purchase, and travel transactions at UH and UHCL for the 12-month periods ending November 13, 2013 and May 31, 2014, respectively. The audit of UH identified some incorrect payroll payments for various classifications of payroll and some expenditure exceptions related to missing documentation and improper payments of insignificant amounts. The audit at UHCL identified one incorrect longevity payment amount and a control weakness in expenditure processing. Management implemented action plans which addressed the Comptroller’s concerns. The State Comptroller’s Office performs post-payment audits of each institution approximately every 2 to 3 years.

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

The next item addressed by Mr. Guyton was Item H, the Report on Institutional Compliance Status Report for the Three Months Ended December 31, 2014 – University of Houston System. This item referred to the Institutional Compliance Status Report for the three (3) months ended December 31, 2014. This report lists activities which include risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports. The remainder of the Institutional Compliance Status Report summarizes the information provided for each institution for their compliance functions.

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

Mr. Guyton presented the next information item listed on the agenda, Item I, the Report on Internal Audit Report – Briefing Booklet – University of Houston System. This item referred to the Internal Audit Briefing Booklet. The Briefing Booklet contained an activity outline, and from this outline, Internal Audit (IA) prepared seven (7) Internal Audit Reports, including two (2) Special Project Reports, since the November 14, 2014, Audit and Compliance Committee meeting. The executive summaries 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 College of Liberal Arts and Social Sciences and the UH Division of Student Affairs and Enrollment Services; a report on UHCL Student Accounting and Receivables; IA Reports on Construction Awards and follow-up activity; and two (2) Special Project Reports performed at the request of the Chancellor and the General Counsel. 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. IA’s report on UHCL Student Accounting and Receivables

contained a Management Action Plan which had been included in the Briefing Booklet, along with an overview of all of IA's recommendations.

Audit Report No. 2015-08 was IA's follow-up report and addressed the status of 45 action items in 14 Individual Audit Reports. IA verified that 30 of the action items had been implemented and 15 partially implemented.

Audit Report No. 2015-09 was the Construction Award Status Report. This is a standing report in IA's Briefing Booklet. The objective of IA's Construction Award Review was to determine whether the major construction contract awards complied with institutional policies and state statutes, particularly the Texas Education Code. This report covered the activity from October 1, 2014 through December 31, 2014. There was not much activity during this three (3) month period: only one (1) project that IA reviewed, but they noted two (2) unusual items related to one of the selection team members' scores being out of line and an additional analyses requested by management.

Audit Report No. 2015-10 and Audit Report No. 2015-12 were departmental reviews of the UH College of Liberal Arts and Social Sciences (CLASS) and the UH Division of Student Affairs and Enrollment Services. Mr. Guyton introduced the Interim Dean of the College of Liberal Arts and Social Sciences, Dr. Steven Craig, who was present at the meeting to answer any questions. IA noted a significant engagement observation related to their review of the UH College of Liberal Arts and Social Sciences related to insufficient financial and administrative oversight. IA was particularly concerned about the lack of sufficient monitoring at the fund group level in the college that resulted in a deficit fund group balance in its state appropriated account by over \$1 million. The college has indicated in its response to our recommendation that it was implementing major business and administrative changes to address these deficiencies. Mr. Guyton referred to Dr. Paula Short, Senior Vice Chancellor and Provost to comment on some of the changes that have been implemented.

Dr. Short stated that Dr. Steven Craig had been appointed as the new Interim Dean of CLASS and that they had reviewed the causes behind this issue and were taking the necessary steps in the college to rectify the situation as described in the Audit Report.

Audit Report No. 2015-11 was IA's report on UHCL Student Accounting and Receivables. IA believes that UHCL had adequate internal controls to help ensure that student accounts were being billed, collected, and accounted for in accordance with statutes, regulations and policies.

The following reports addressed by Mr. Guyton were completed at the Chancellor's and the General Counsel's request. Four (4) Special Project Reports were initiated, two (2) of which were included in this report. The first report addressed the UH Football Stadium Higher Education Assistance Fund expenditures; and the second report addressed the UH Facilities and Event Management Services for Athletics and Football Stadium. The other two (2) special projects that are still in progress were the Memorandum of Understanding (MOU) that the students had with the university related to the increase in the student fee which was used to construct the football stadium; and the other special project IA has relates to the actions regarding the Student Fee Advisory Committee.

Special Project Report No. SP2015-01 was IA's report on the UH Football Stadium Higher Education Assistance Fund (HEAF) Expenditures. At the Chancellor's request for review, IA reviewed the propriety of using HEAF on the educational and general space in the new football stadium for the UH Marching Band facilities. IA reviewed the UH Football Stadium construction project budgets, financial records, project planning documents, and the Texas Constitution and System policy related to the HEAF expenditures. The Texas Constitution, Article 7, Section 17 allows the expenditure of HEAF funds for facilities used jointly for educational and general activities and for auxiliary enterprises to the extent of their use for educational and general activities. IA interviewed personnel and conducted a physical inventory observation of the finished educational and general space located in the UH Football Stadium and IA took photographs of the space in question which was included in the report. IA also reviewed the Texas Higher Education Coordinating Board's website for construction information. In IA's opinion, the amount of HEAF expenditures budgeted for and expended on the educational and general space at the UH Football Stadium construction project were reasonable and complied with University policies and State statutes. A discussion followed.

Regent Welder asked Chancellor Khator if she was satisfied with the audit outcome of this report that the HEAF funds were used according to her expectations. Chancellor Khator stated that this was the recommendation from the auditor and she had no reason to doubt his report and that what he was saying was correct.

Mr. Guyton moved to the next Special Project Report No. SP2015-02 which was IA's report on the UH Facilities and Event Management Services. At the Chancellor's and General Counsel's request, IA reviewed the process for the evaluation and award for the contract for Facilities and Event Management Services for the University of Houston Athletic Facilities and the Cullen Performance Hall.

Mr. Guyton stated that the process for selecting a vendor for Facilities and Event Management Services for the University of Houston Athletic Facilities and the Cullen Performance Hall changed from a partnership or sole source arrangement with ARAMARK to an RFP solicitation. As a result, information related to facilities management had been provided to ARAMARK during that timeframe. When the RFP was posted, only a portion of that information was attached to the RFP. In addition, ARAMARK's proposal to the RFP was the only one received and it did not contain one of the minimum requirements which was a \$1 million guarantee. Management understood that they could accept that bid as long as it determined that not meeting the minimum guarantee was "not material." Management decided to proceed to negotiate the best agreement available with ARAMARK, even though the proposal was not completely responsive to the RFP. IA believes the policies should be modified to define the consequences of not meeting minimum requirements set forth in RFPs. Management has drafted the appropriate modifications to these policies which address these concerns and they should be implemented shortly. A lengthy discussion followed.

Chairman Fertitta stated that the one thing that he would recommend was that he believes the university needs to tighten up its policies and procedures and if we give any information to one

person, we give it to all. Chairman Fertitta reiterated management should make sure there is nothing ambiguous whatsoever in any RFP.

Following this discussion, Mr. Guyton moved to the activity outline where IA has various scheduled audits in the fieldwork in progress or in the planning phase. These audits are included in the Board-approved Internal Audit Plan for 2014.

Internal Audit also has various special projects in progress. FEMA is still conducting audits of UH's reimbursements for Hurricane Ike. The State Comptroller has just initiated its post-payment audit at UH-Downtown. These audits are performed at all of our institutions about every 2 to 3 years. The State Auditor's Office is finalizing its annual statewide audit and UH and UH-Downtown's Federal Financial Aid Programs are included in the scope of the review. Also included in the scope of this audit is UH's Research and Development expenditures. Their report should be issued during the February – March timeframe. The State Auditor's Office has also started a HUB audit at the University of Houston and IA should be able to report those results at the next committee meeting if the report is issued.

The last item addressed by Mr. Guyton was Item-J, the Report on UHS Annual Financial Statements/Certification – University of Houston System. This report 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. The agenda contains these certifications. Prior to the Chancellor and Vice Chancellor for Administration and Finance signing the certifications, the following steps took 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 125 departments completed the FY2014 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 FY2012 by UH/UHSA departments were true and correct; and
3. Mike Glisson, David Ellis, Tom Ehardt, Dr. Carlucci, and Dr. Khator signed the Certification Letter for UH, UHSA, and the UH System Consolidated based on:
 - (a) Department surveys, which indicate internal controls were adequate within UH and UHSA departments to ensure correct financial transactions;
 - (b) Certifications signed by UHCL, UHD, and UHV representatives; and
 - (c) Their knowledge and review of the FY2014 Annual Financial Report for UH, UHSA, and UH System Consolidated.

This item was presented for information only and required no committee action. This item concluded Mr. Guyton's presentations to the committee.

Regent Welder thanked Mr. Guyton for his presentations at the meeting.

No Executive Session was called.

There being no further business to come before the committee, the meeting adjourned at 3:50 p.m.

All documentation submitted to the Committee in support of the foregoing action items, including but not limited to “Passed” agenda items and supporting documentation presented to the Committee, is incorporated herein and made a part of these minutes for all purposes; however, this does not constitute a waiver of any privileges contained herein.

Others Present:

Renu Khator
Carl Carlucci
Paula Myrick Short
Richie Hunter
Jason Smith
Eloise Dunn Stuhr
Richard Walker
Elwyn Lee
William Flores
Vic Morgan
Carolyn Black
Brian Krueger
Esmeralda Valdez
Mark Yzaguirre
Brian Alexander
Casear Moore
Anita Couch
Jon Aldrich
Gerry Mathisen

Don Guyton
Sandra Dahlke
Chris Stanich
Steven Craig
Troy Golden
Raymond Bartlett
David Bradley
Mark Clarke
Dana Rooks
Erin O’Keefe
Robert Belt
Christina Campos
Don Price
Wynne Chin
Mara Alfri
Shannon Harris
Brian Thomas
Marquette Hobbs

Russ Hoskens
Eno Udoh
Jeff Collier
Emily Messa
John Locke
Dan Wells
David Ellis
Dan Maxwell
Brett Collier
Joe Brueggman
Greg Sissel
Richard Bonnin
Mike Emery
Jonathan Snow
Daniel Arp
Phil Booth
Sacha Ryder
Brenda Robles