

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

Thursday, May 21, 2015 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 1:51 p.m. on Thursday, May 21, 2015 at the Hilton University of Houston, Conrad Hilton Ballroom, 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

Durga Agrawal, Regent
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. The first order of business was the Executive Session.

AGENDA ITEMS

Executive Session Report:

At 1:52 p.m., Regent Welder announced that pursuant to Subchapter D of Chapter 551 of the Texas Government Code listed on page one (1) of the agenda, which allows governing boards to meet in closed session, Regent Welder stated the committee would convene in Executive Session.

Regent Welder reconvened the Audit and Compliance Committee meeting in open session at 2:37 p.m. and stated that the regents had met in Executive Session and heard reports from the Chief Audit Executive, Don Guyton. There was no action taken in Executive Session.

Action Items:

Following Executive Session, Regent Welder moved to the remaining items listed on the agenda.

1. Approval of Minutes – Item B

The first action item presented to the committee was the approval of minutes from the February 19, 2015, Audit and Compliance Committee meeting.

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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:

- February 19, 2015, Audit and Compliance Committee Meeting

Information Item(s):

Following the approval of the minutes, Regent Welder stated that the committee would be presented four (4) information items; and introduced Mr. Don Guyton, Chief Audit Executive, to present these items before the committee.

Mr. Guyton stated there were three (3) open points from the February 19, 2015, Audit and Compliance Committee meeting.

1. Regent Mendoza had requested status on the ARAMARK HUB plan and Mr. Guyton provided the HUB plan and FY2014 expenditures to Regent Mendoza as requested.
2. Regent Armour requested a copy of the Athletics Venue / Facilities Management RFP and this had been provided to all regents.
3. Chairman Fertitta had stated that any information provided to any potential proposer to an RFP should be provided to all. Mr. Guyton stated that the UH System policy was being revised to help ensure that this does occur.

Mr. Guyton introduced the next item for information, Item C, Report on External Audit Reports – State Auditor Report – SAO Report 15-313 – Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2014 – University of Houston System – AUDIT-C. This agenda item referred to the University of Houston System excerpts of the State Auditor’s recently issued reports on the Federal and Financial Portions of the State-wide Single Audit Report for FY2014. The first two pages of this report showed a list of key points as they related to the UH System (“UHS”) entities. The auditor’s fieldwork at the UHS consisted of an audit of the University of Houston’s Federal Financial Aid Programs and Research and Development Programs. It also included a limited review of UH-Downtown’s Federal Financial Aid Programs and follow-up procedures on prior year audit findings at the University of Houston, UH-Downtown and UH-Victoria. Some of the State Auditor’s recommendations for UHS entities have been implemented and three (3) were scheduled to be implemented during September 2015.

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

Mr. Guyton moved to Item D on the agenda, Report on Institutional Compliance Status Report for the Three Months ended March 31, 2015 – University of Houston System – AUDIT-D. This report lists activities which included risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports. The remainder of the Institutional Compliance Status Report summarized the information provided for each institution for their compliance functions.

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

Mr. Guyton moved to the next item listed on the agenda, Item E, the Internal Audit Briefing Booklet – University of Houston System – AUDIT-E. The Briefing Booklet contained an activity outline and from this outline Internal Audit (“IA”) prepared nine (9) Internal Audit Reports and two (2) Special Project Reports since the February 19, 2015, 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 Compliance Reviews of the UH College of Architecture; IA’s annual UH Athletics Football Attendance Certification; a review of Endowments at UH College of Technology; a review of Formula Funding at UH-Clear Lake and UH-Victoria; a review of Student Accounting and Receivables at UH-Downtown and UH-Victoria; and IA’s reports on Construction and Other Contracts requiring Board approval and follow-up activity reports. 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. The reports contained a Management Action Plan which was included in the Briefing Booklet, along with an overview of all of IA’s recommendations.

Audit Report No. 2015-13 was IA’s follow-up report and addressed the status of 37 action items in 14 individual audit reports. IA verified that 17 of the action items had been implemented, 19 partially implemented, and one (1) not implemented. Updated management responses had been obtained on the partially implemented and not implemented action items. IA had no high risk items in this report.

Audit Report No. 2015-14 was IA’s review of endowments of the College of Technology. IA noted no reportable issues with this audit. Mr. Guyton introduced Dean Fitzgibbon of the College of Technology

Audit Report No. 2015-15 was IA’s Annual Football Attendance Audit which is required by the NCAA. In this report was a table listing the paid attendance for each home game. This year’s average attendance was 23,914 (last year’s average attendance was 15,083).

Audit Reports No. 2015-16 and 2015-20 was IA’s review of Student Accounting and Receivables at UH-Victoria and UH-Downtown. IA noted several opportunities for improvement in each of these reports, but in the UH-Downtown report IA noted some significant engagement observations related to the lack of a reconciliation between the Student Accounting System and the Finance System, Accounts Receivable Write-off Procedures and that UH-Downtown was the only institution that had not migrated to the PeopleSoft Student System which was a directive of the Board of Regents that all institutions move to common vendor-supported systems. UH-Downtown is making progress in analyzing its \$5.5 million difference of receivables between the Finance and Student Systems and it is addressing these and the other opportunities listed in the report. UH-Downtown has agreed to work with the UH System to implement the PeopleSoft Student System and it expects to have it implemented by December 31, 2018. This should be a win-win situation for UH-Downtown as it can rely on the infrastructure already in place and working to maintain this complex core system. A discussion followed.

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Audit Report No. 2015-17 was a report on IA's Departmental Review of the UH College of Architecture. IA noted one (1) matter that they considered a significant engagement observation: insufficient financial and administrative oversight. The College management and Office of the Provost are addressing this matter.

Audit Reports No. 2015-18 and 2015-19 were IA reports on Formula Funding for UH-Clear Lake and UH-Victoria. There were no significant issues noted in these areas.

Audit Report No. 2015-21 was IA's report on Construction and Other Contracts requiring Board approval. This was IA's first report that also included contracts other than construction that require 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, 2015 through March 31, 2015. Appendix 1 of this report indicated the scope of the Internal Audit Review. There was very little activity during this time period and IA noted one (1) unusual item which was only one (1) proposal which was received for the RFP on Public Radio and Television Underwriting Services. A brief discussion followed.

The last two (2) reports in the Briefing Booklet were the Special Project Reports related to Athletics Facilities Management costs and issues raised by students concerning the Student Fee Advisory Committee and the Memorandum of Understanding ("MOU") between the students and UH-related to an increase of student fees to help fund the construction of the new stadium and renovations to Hofheinz Pavilion.

SP2015-03 was IA's report on the UH Athletics Facilities Management Costs. The objective of this review was to determine the extent of the differences between in-house versus contract services for providing Athletics Facilities Management Services. The former UH Executive Director of Facilities Management asserted through the university's anonymous reporting mechanism that management knew when they contracted out Athletics Facilities Management that the costs were higher than in-house services, but chose to do so anyway. IA determined that the cost of providing Athletics Facilities Management by ARAMARK for FY2014 exceeded the costs of providing these services internally for FY2013 by approximately \$600,000. Administration and Finance management attributed the increase in cost to the increase in scope of services for Hofheinz Pavilion, the quality of work performed, the capital contributions of \$1.3 million and other one-time and recurring contributions. IA was unable to make a determination for subsequent years because such an analysis was not available. IA believed that management and the Board of Regents should periodically review performance of significant revenue and service contracts. A brief discussion followed.

SP2015-04 was IA's report on the student issues related to the Student Fee Advisory Committee (SFAC) and the Memorandum of Understanding ("MOU") between the University of Houston and the students related to the students' approval of the increase to the student fees to help construct the new football stadium and Hofheinz renovations. The Student Government Association's (SGA's) MOU has been revised and is being honored. Administration and Finance management was not always forthcoming about its knowledge and responsibility for

certain provisions of the MOU relating to the new stadium. Administrators do not appear to have “bullied” SFAC members or undermined SFAC’s mission. However, the SGA President may have intimidated the SFAC Chair. The SGA President does not believe that his actions constituted a threat or intimidation. Information appears to have been forthcoming to SFAC, as it directly related to SFAC’s responsibility. IA also noted concerns related to an explanation of accountability of expenditures which is being addressed by Student Affairs and SFAC assuming the responsibility for a provision of the MOU.

On the activity outline, Internal Audit has 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 2015.

IA also has various special projects in progress. One (1) of these items was the State Comptroller’s Post-Payment Audit of UH-Downtown. IA expects their report to be on the agenda of the August 19, 2015, Audit and Compliance Committee meeting. IA also received notice from the State Auditor’s Office that in conjunction with their annual audit, it intended to audit UH’s and UH-Downtown’s Federal Financial Aid Programs. The State Auditor is also in the progress of drafting its report on its audit of the UH Historically Underutilized Businesses (“HUB”) and State Use Program. IA also expects this item to be on the agenda for the August 19, 2015, Audit and Compliance Committee meeting.

In addition to the activity outline was the Audit Plan Status. The shaded areas were completed and the footnotes indicated the status on the other areas.

Internal Audit’s Report on their Quality Assurance Improvement Program was addressed. This is a requirement of the Institute of Internal Auditors *Standards*.

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

Mr. Guyton moved to the last item listed on the agenda, Item F, the Report on UH System Support Organizations – University of Houston – AUDIT-F. Mr. Guyton stated this item referred to the Compliance Review of UHS Support Organizations and the UHS Support Organizations Report. The Compliance Review of UHS Support Organizations indicated the status of the receipt of this information. The Compliance Review was prepared by UHS Advancement and the accompanying compilation of financial information was prepared by UHS Financial Reporting. It was noted that UH has not received some of the information from some of the foundations. The UHS 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 beginning of the report, the regents’ fiduciary responsibilities to the 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 which requires them to furnish certain information to the System. This

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requirement was spelled out in the UHS agreements with the Support Organizations. A discussion followed.

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

There being no further business to come before the committee this meeting was adjourned at 3:15 p.m.

Others Present:

Renu Khator	Don Guyton	Russ Hoskens
Carl Carlucci	Sandra Dahlke	Eno Udoh
Paula Myrick Short	Chris Stanich	Tiffany Meyers
Dona Cornell	Mark Yzaguirre	Mark Clarke
Richie Hunter	Wynne Chin	Caesar Moore
Ramanan Krishnamoorti	Dan Wells	Emily Messa
Jason Smith	Nick Bowen	Mike Emery
Eloise Dunn Stuhr	Raymond Bartlett	Wayne Beran
Richard Walker	Dana Rooks	Ben Wermund (Houston Chronicle)
Elwyn Lee	Fred McGhee	Carl Stockton
William Flores	Katie Bowen	William Fitzgibbon
Raymond V. Morgan	Richard Bonnin	Joe Brueggman
William Staples	Dick Phillips	Phil Booth
Mike Glisson	Don Price	Jon Aldrich
David Bradley	Valerie Coleman-Ferguson	Shannon Harrison
Brian Thomas	Sacha Ryder	Marquette Hobbs
Brenda Robles	Gerry Mathisen	