

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

Thursday, August 22, 2019 – The members of the Audit and Compliance Committee of the University of Houston System Board of Regents convened at 10:13 a.m. on Thursday, August 22, 2019, at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

Members Present

Peter K. Taaffe, Chair
Durga D. Agrawal, Vice Chair
Gerald W. McElvy, Member
Doug H. Brooks, Member
Steve I. Chazen, Member
Tilman J. Fertitta, Ex Officio Member

Non-Member(s) Present

Beth Madison, Regent
Paula M. Mendoza, Regent
Jack B. Moore, Regent
John D. Fields, Student Regent Non-voting

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, Peter K. Taaffe called the meeting to order at 10:13 a.m. Regent Taaffe stated the committee would be presented four (4) action items for the committee's approval: two (2) requiring committee and board approval; and two (2) requiring committee approval only. There were also three (3) information items also presented.

Regent Taaffe stated the first order of business would be Item B, the approval of the minutes from the May 16, 2019, Audit and Compliance Committee meeting listed on the committee's agenda.

Action Items:

1. Approval of Minutes – Item B

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

- May 16, 2019, Audit and Compliance Committee Meeting

AGENDA ITEMS

Following the approval of the minutes, Regent Taaffe moved to the next action item for the committee's approval, Item C, a Report on University of Houston System, Annual Internal Audit Plan, FY2020-FY2022 – University of Houston System, and asked Mr. Don Guyton, Chief Audit Executive to introduce this item.

Mr. Guyton introduced Item C which contained the final draft of the Annual Internal Audit Plan for Fiscal Years 2020-2022 and referred this item to Mr. Russ Hoskens, Assistant Chief Audit Executive, who presented this item to the committee for their consideration and approval.

Mr. Hoskens stated the Annual Audit Plan consisted of the following:

1. Executive Summary;
2. Summary of Man-Hours / Man-Hour Assumptions;
3. Listing of Audit Team Members;
4. Listing of Auditable Areas;
5. Description of Audit Objectives;
6. Three-year Audit Schedule;
7. Analysis of Frequency of Audit Activity; and
8. Risk Assessment for all Universities.

Risk assessment techniques were 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. Mr. Hoskens stated that audits of these higher risk areas should help mitigate some of the risk. Internal Audit (“IA”) prepared a separate risk assessment for each university. In preparing the Audit Plan and Risk Assessment, 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 Executive Summary of the Audit Plan and in the Summary of Effort. In the Summary of Effort, the budgeted hours were calculated and a description of the resources were provided. This year’s budget was increased slightly as a result of a merit pool. IA believes the resources dedicated to the Internal Audit Program were adequate. It was also noted that in the Organization Chart of the Internal Auditing Department, they were fully staffed; and another area contained brief biographies of their audit team members. Mr. Hoskens then introduced and asked each of the audit team members, who were present at the meeting, to stand and be recognized. The Audit Plan also contained the 3-year schedule of planned engagements. This Audit Plan, including a summary of the Internal Audit resources, was presented for the committee's review and approval to be approved by the Board later at their meeting.

On motion of Regent Chazen, seconded by Regent Agrawal, and by unanimous vote of the committee members in attendance, the Report on University of Houston System, Annual Internal Audit Plan, FY2020-FY2022 – University of Houston System was approved.

The next action item presented for the committee’s consideration and approval was Item D, a Report on University of Houston System, Audit and Compliance Committee Charter and Checklist – University of Houston System, and Regent Taaffe asked Mr. Guyton to present this item.

Mr. Guyton stated 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 on the Audit and Compliance Charter and Checklist requires an annual review and update. There were no suggested changes to this document which had previously been approved by the Audit and Compliance Committee at its meeting held in August 2018.

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

Following the approval of this item, Regent Taaffe requested that the last two (2) action items approved by the committee be placed on the Board’s Consent Docket Agenda for final Board approval.

On motion of Regent Agrawal, seconded by Regent Chazen, and unanimously approved by the committee, the following two (2) action items will be placed on the Board’s Consent Docket Agenda at the Board meeting held later in the day as follows:

1. Report on University of Houston System, Annual Internal Audit Plan FY2020-FY2022 – UH System; and
2. Report on University of Houston System, Audit and Compliance Committee Charter and Checklist – UH System.

Regent Taaffe requested Mr. Guyton present the last action item for the committee’s consideration, Item E, the Report on University of Houston System, Audit and Compliance Committee Planner – University of Houston System.

Mr. Guyton said this item referred to the Audit and Compliance Committee Planner. The planner listed all actions required by the Audit and Compliance Committee with recommended schedules for these activities. Item 2.04 requires the Audit and Compliance Committee to approve the Audit and Compliance Committee Planner for the upcoming year; and Mr. Guyton stated that there were no changes to the planner since it had been approved by the committee a year ago in August 2018.

On motion of Regent McElvy, seconded by Regent Agrawal, and unanimously approved by the committee members in attendance, the Report on University of Houston System, Audit and Compliance Committee Planner – University of Houston System was approved.

This item requires committee approval only and no further board action was required.

Following the approval of this item, Regent Taaffe stated the remaining items would be presented by Mr. Guyton for information only.

Item F, the Report on University of Houston System, THECB Audit Reports: UH Texas Grant Program, FY2018 and UHD Desk Review of Formula Funding, FY2018 – University of Houston System was the next item presented.

Mr. Guyton commented that this item referred to the THECB Audit Reports: UH Texas Grant Program, FY2018 and UHD Desk Review of Formula Funding, FY2018 and there were no exceptions noted by the auditors in either of these audits.

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

Mr. Guyton moved to Item G, the Report on University of Houston System, Internal Audit Briefing Booklet including Audit Activity Outline / Audit Plan Status and Internal Audit Reports – University of Houston System, which referred to the Internal Audit Briefing Booklet.

The Briefing Booklet contained an activity outline which included six (6) Internal Audit Reports prepared by Internal Auditing (“IA”) since the May 16, 2019, Audit and Compliance Committee meeting. Also included in this outline were 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 FY2019.

Internal Auditing had various Special Projects in Progress. These included the FEMA audits, the State Comptroller Post-Payment audit of UH-Clear Lake, the State Auditor’s follow-up work on the prior year audit of University of Houston Federal Financial Aid programs, and the State Auditor’s audit of selected contracts at the University of Houston. Behind the Activity Outline was the Audit Plan Status; and the highlighted areas showed that they had been completed and the footnotes had indicated the status on the other areas.

The Executive Summaries of the Internal Audit Reports were discussed in the Briefing Booklet as well as the Individual Reports. These reports addressed areas included in the Board-approved Audit Plan and included: IA’s Follow-up Status Report, IA’s Report on Construction and Other Contracts requiring Board Approval, a Report on IA’s Review of System-wide Human Resources Departments, and IA’s University of Houston Departmental Reviews of the Division of Administration and Finance, the Kathrine G. McGovern College of the Arts, and the Law Center. These reports will be submitted to the Sunset Advisory Commission; the Governor’s Office of Budget, Planning, and Policy; the State Auditor; and the Legislative Budget Board, as required by the Texas Government Code. Internal Audit Reports on UHS Human Resources and the UH Division of Administration and Finance contained Management Action Plans and were included in the Briefing Booklet. An overview of all of IA’s recommendations had been included in these reports.

Audit Report No. 2019-21 was Internal Audit’s Follow-up Report and addressed the status of 26 action items in nine (9) Individual Audit Reports. Internal Audit verified that 22 of the action items had been implemented and four (4) were partially implemented. Updated management responses had been obtained on the partially implemented action items. There were no high risk items in this report and no items that had not been implemented that required an explanation from management.

Audit Report No. 2019-22 was IA’s Report on Construction and Other Contracts Requiring BOR approval. This was a standing report in the Briefing Booklet, similar to IA’s Follow-up Status Report. The objective of IA’s review was to determine whether the University of Houston 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 of Regents' approval. This report covered the activity from April 1, 2019 through June 30, 2019. Appendix 1 of this report indicated the scope of the Internal Audit Review. As noted in this Appendix, Internal Audit had performed audit procedures on 13 of the projects listed. It was noted no unusual items or other matters that they considered non-compliant with University policies and procedures or State statutes.

Audit Report No. 2019-23 was IA's Review of the University of Houston System Human Resources; and the objectives of this review at each institution was to determine whether internal controls were adequate to help ensure that the recruitment and selection of employees were conducted timely and in accordance with statutes, regulations and University policies and to determine whether the Department's activities were helping to accomplish their goals and objectives. Internal Audit noted no matters that they considered significant. They identified opportunities for improvement in the areas of customer satisfaction, goals and objectives, policies and procedures; and UH-Clear Lake's strategic hiring process and use of the Taleo Applicant Tracking System. Human Resource management at each University was addressing Internal Audit's recommendations.

Audit Reports Nos. 2019-24, No. 2019-25 and No. 2019-26 were IA's Departmental Reviews on the UH Division of Administration and Finance, the UH Kathrine G. McGovern College of the Arts, and the on UH Law Center and IA noted no significant issues in these reviews.

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

Mr. Guyton moved to Item H, the Report on University of Houston System, Institutional Compliance Status Report for the three months ended June 30, 2019, and Annual Plan for FY2020 – University of Houston System, and stated this report listed activities for the three (3) months ending June 30, 2019, which included risk assessments, compliance audits, compliance committee meetings, risk mitigation and hot-line reports. It was noted that there were 30 hot-line reports received during this three (3) month period. These were reports of fraud, waste, abuse and non-compliance. These reports originated from faculty, staff, students and others. There were 18 unresolved reports as of June 30, 2019. At the completion of this fiscal year, Internal Audit will prepare an annual report on all reports received during the year which would categorized the types of reports received. This report will be addressed at the November 14, 2019, Audit and Compliance Committee meeting. During September, the Chancellor will send out her annual notice to all UH System employees to report non-compliance, fraud and sexual misconduct. This communication also makes everyone aware of the anonymous reporting mechanism.

Also listed in this report was a listing of compliance activities of each of the universities. At the end of this report was each university's Compliance Plan for FY2020. The first item listed under UH was that the UH Institutional Compliance Committee had identified lab safety as its area of focus for FY2020. Mr. Guyton asked Mr. Jim McShan, Senior Vice Chancellor for Administration and Finance, to provide an update on this issue.

Mr. McShan stated much has been accomplished regarding this matter. Last fall, a Chemical Safety Manager was hired who had identified an instance of falsifying a record in the lab. The biggest high-level issue identified was the lack of clarity of responsibilities, leadership and oversight. A Chemical Safety Committee was formed which included representatives from private investigators, to department individuals representing the colleges, as well as research. In addition, this committee would be the one whereby violations are reported, sets the standards, etc., for the operations of the labs. Additionally, it was being made very clear that the responsibility for lab safety is within the labs and their oversight. The way it had previously been perceived was that our Environmental Health and Life Safety were more likely the ones responsible for the safety as opposed to the ones auditing it. Responsibilities have been more defined. A Chemical Inventory System has been implemented with the intent that every chemical on campus is identified. Then based upon where those chemicals are located and where some of these high risk areas are noted, we will then have them audited. Once completed, a risk analysis will be developed. Higher risk areas will be audited more frequently than those of lower risk areas. Codes for safety were being addressed with training programs, signage, placing tape on the floors where they should be, and continually developing best practices.

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

Following Mr. Guyton's presentation on this item, Regent Taaffe thanked Mr. Guyton and Mr. Hoskens for their presentations at this meeting.

At 10:40 a.m., Regent Taaffe moved to Section II listed on the agenda, the Executive Session. Regent Taaffe 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 Taaffe reconvened the committee meeting in open session at 11:15 a.m. and stated the Board had met in Executive Session and discussed personnel matters and consulted with the General Counsel on legal 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 11:16 a.m.

Others Present:

Renu Khator
Jim McShan
Paula Myrick Short
Dona Cornell
Richard Walker
Ira A. Blake
Juan Sánchez Muñoz

Don Guyton
Raymond Bartlett
David Oliver
Tamara Maxwell
Kim Gerry
Emily Tran
Connie Applebach

Russ Hoskens
Sandra Dahlke
Tony Moreno
Eric Porter
Elias McClellan
Jeff Collier
Jeff Palmer

Others Present (cont'd):

Robert Glenn
Lisa Holdeman
Richard Dias
Mark Denney
Wayne Beran
Dan Maxwell
Off. Demarcus Williams
Joe Brueggman
Ed Castello
Marquette Hobbs

Max Trinidad
Valerie Coleman Ferguson
Eric Link
Chris Paul
Steve Berberich
Chance Glenn
Matthew Castello
Jon Aldrich
Randy Wong
Gerry Mathisen

Jesse Pisors
Gaston Reinoso
Karin Livingston
Barbara White
Sabrina Hassumani
Off. Roland Henderson
Macie Kelly
Shannon Harrison
Brenda Robles