

UNIVERSITY OF HOUSTON SYSTEM
Audit and Compliance Committee
February 15, 2012

AGENDA

UNIVERSITY OF HOUSTON SYSTEM AUDIT AND COMPLIANCE COMMITTEE MEETING

DATE: Wednesday, February 15, 2012
TIME: 9:30 a.m.
PLACE: University of Houston-Clear Lake
Garden Room, Room 1510 Bayou Building
2700 Bay Area Blvd.
Houston, Texas 77058

Chair: Nandita V. Berry
Vice Chair: Mica Mosbacher
Members: Roger F. Welder
Tamecia Glover Harris
Nelda Luce Blair, Ex Officio

AUDIT AND COMPLIANCE COMMITTEE

- A. Call to Order
- B. Approval of Committee Meeting Minutes
- November 16, 2011, Audit and Compliance Committee Meeting
- Action:** Approval
- C. Report on Audit Report and Financial Statements, University of Houston Charter School, FY 2011 – University of Houston System AUDIT-C-1
- Action:** Approval
- D. Report on External Audit Report – UH Athletics Department Independent Accountants' Report on the Application of Agreed-Upon Procedures for Year Ended August 31, 2011 – University of Houston System AUDIT-D-53
- Action:** Information

- E. Report on External Audit Report – Texas Comptroller of Public Accounts Post Payment Audit of the University of Houston System – University of Houston System AUDIT-E-79
- Action:** Information
- F. Report on Institutional Compliance Status Report for the Three Months Ended December 31, 2011 – University of Houston System AUDIT-F-91
- Action:** Information
- G. Report on Internal Audit Report – Briefing Booklet, including explanation of internal audit peer review process and proposed peer review team – University of Houston System AUDIT-G-101
- Action:** Information
- H. Report on Board of Regents’ Internal Audit, Institutional Compliance and Identity Theft Program Policies – University of Houston System AUDIT-H-102
- Action:** Information
- I. Report on UHS Annual Financial Statements/Certifications – University of Houston System AUDIT-I-108
- Action:** Information
- J. Adjourn

UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Audit and Compliance

ITEM: Report on Audit Report and Financial Statements, University of Houston
Charter School, FY 2011

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

Approval is requested for the Audit Report and Financial Statements of the University of Houston Charter School for Fiscal Year 2011. Certification of the audit and financial information by the Board is required by the Texas Education Code, Title 2, Chapter 44, Section 44.008(d).

The key points of the report include the following:

- Report on Internal Control over Financial Reporting (page 1)
- Annual Financial Report (page 3)
- Letter of Transmittal (page 9)
- Financial Section (page 13)
- Management's Discussion and Analysis (page 16)
- Basic Financial Statements (page 27)
- Notes to Basic Financial Statements (page 32)
- Supplementary Information (page 39)

SUPPORTING

DOCUMENTATION: Audit Report and Financial Statements of the UH Charter School
for FY 2011

FISCAL NOTE: None

RECOMMENDATION/
ACTION REQUESTED: Administration recommends approval of this item

COMPONENT: University of Houston System

CHIEF AUDIT EXECUTIVE



Don Guyton

1/25/12
DATE

CHANCELLOR



Renu Khator

1/31/12
DATE



KPMG LLP
811 Main Street
Houston, TX 77002

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance *With Government Auditing
Standards***

The Board of Regents
University of Houston Charter School:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the University of Houston Charter School (Charter School) as of and for the year ended August 31, 2011, which collectively comprise the Charter School's basic financial statements and have issued our report thereon dated January 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Charter School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain

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02/15/2012

AUDIT – C-2

provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the board of regents, others within the entity, and the Texas Education Agency and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 17, 2012



UNIVERSITY OF HOUSTON CHARTER SCHOOL

Annual Financial Report

August 31, 2011

(With Independent Auditors' Report Thereon)

UNIVERSITY OF HOUSTON CHARTER SCHOOL

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UNIVERSITY OF HOUSTON CHARTER SCHOOL

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INTRODUCTORY SECTION

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Certificate of Board

Pending approval from the University of Houston Board of Regents

UNIVERSITY OF HOUSTON CHARTER SCHOOL

University of Houston System Board of Regents – Board Members

Chairman: Carroll Robertson Ray

Vice Chairman: Nelda Luce Blair

Secretary: Mica Mosbacher

Welcome W. Wilson, Sr.

Jim P. Wise

Jacob M. Monty

Nandita V. Berry

Tilman J. Fertitta

Jarvis V. Hollingsworth

Andrew Cobos

Member(s) with terms set to expire August 31, 2011

- Carroll Robertson Ray
- Welcome W. Wilson, Sr.
- Jim P. Wise
- Andrew Cobos

Member(s) with terms set to expire August 31, 2013

- Mica Mosbacher
- Nelda Luce Blair
- Jacob M. Monty

Member(s) with terms set to expire August 31, 2015

- Nandita V. Berry
- Tilman J. Fertitta
- Jarvis V. Hollingsworth

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Letter of Transmittal

Introduction

The discussion and analysis of the financial position of the University of Houston Charter School (the Charter School or UHCS) provides an overview of the activities for the fiscal years ended August 31, 2011 and 2010. The Management's Discussion and Analysis (MD&A) is intended to offer a summary of significant current year activities, resulting changes, and currently known economic conditions and facts. The MD&A analysis should be read in conjunction with the transmittal letter, the basic financial statements, and the notes to the basic financial statements, which follow this section.

Charter School Profile

In 1996, the Texas State Board of Education (SBOE) granted a five-year charter to operate a public school to the University of Houston, one of the nineteen first generation Texas charter schools. The SBOE then granted a ten-year charter under which UHCS is currently operating. The University of Houston System (UH) Board of Regents is the governing body of UHCS. The school initially enrolled students on a first-come, first-served basis. In 1999, the Texas Education Agency (TEA) required UHCS to begin enrolling students using a lottery system since the school was oversubscribed. The Charter School serves students and families from the greater Houston area. The Charter School opened on January 27, 1997 with one kindergarten/first grade class and three employees. Today, 136 students are enrolled in six classes from kindergarten through fifth grade. Parents of 31% of the currently enrolled children are either UH employees or students. The school is housed in 14,000 square feet of the first floor of Melcher Gymnasium.

All Charter School faculty are UH employees. All teachers meet the highly qualified standards for the "No Child Left Behind" (NCLB) program. The Charter School provides English as a Second Language (ESL), Special Education, and, for qualifying students, breakfast and hot lunches are provided through the National School Breakfast/Lunch Program. After-school and summer tutoring are provided with Title I funds. Teacher literacy, math, and science coaching is provided from Title II and ARRA federal grant.

The setting of a university campus provides a rich experience and base for a school. An intellectual experience, grounds the school. The University of Houston (the University) supports the school with a physical location, including a playground, utilities, and custodial care. UHCS supports the university in research collaborations, University students develop, and practice in a model educational program with programs ranging from athletics to public relations. The school curriculum includes specific classes in art, music, and physical education. Discovery Camp is held each Friday and third, fourth, and fifth graders choose from a variety of classes: Middle Eastern Dance, Gardening, Cooking, Science Club, Scrap Booking, Art Club, Guitar, and Archery. The school participates in the Texas Archery in the Schools Program. For the sixth year, a UHCS archery team has competed in the State Archery in the Schools event.

For the fourth year, the Charter School managed Camp Construct, the before- and after-school care program. The UHCS has filed for a license with the Texas Department of Children and Families to become a licensed child care facility. For the first year, UHCS held a summer Camp Construct program serving current UHCS students and newly enrolling students during the months of June and July.

Planning Panel meetings three times a year provide opportunities for faculty and parents to make decisions and work to improve the program. Parents participate on all of the 15 school committees. Parent Surveys are collected and analyzed.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Letter of Transmittal

The Charter School was again assigned the TEA “Exemplary Rating” for the 2010 – 2011 school year, which reflects the students’ performance on the Texas Assessment of Knowledge and Skills (TAKS). 100% of UHCS fourth graders passed the Writing TAKS.

91% of all third through fifth graders met passing standards for reading. 87% of all third through fifth graders met passing standards for mathematics and 83% met passing science standards.

Organization Philosophy

Vision Statement The Charter School is a recognized model constructivist school that empowers children, parents, and faculty in the global community to fulfill their potential through autonomy, wonder, and discovery.

Motto Challenging children to construct knowledge and community.

The ideology of the Charter School outlines the ideals and beliefs held by their employees. The Charter School strives to strengthen the social and economic foundation of Houston by offering its youth the highest quality of elementary education.

Thirteen teachers (seven lead and six assistant) lead classes using constructivist practices with an emphasis on technology and lesson plans designed to support children’s natural curiosity. Teachers tailor classroom experiences to the needs and interest of each year’s students. Reasoning, autonomy, and community are promoted throughout each child’s day and life at the Charter School.

The management and staff of the Charter School endorse and support the Charter School’s Mission Statement – to provide a student-centered curriculum that enhances the intellectual development, technological fluency, and leadership ability of students. The knowledge gained by the students will allow them to transfer into the sixth grade at other schools and will give them strategic advantages. The positive results that have been achieved have resulted in a continuing high demand for admission into the program, as reflected by a consistent number of applications for enrollment.

Economic Outreach

The Charter School maintains a healthy current ratio (proportion of current assets to current liabilities) of 1.36 and 1.98 for 2011 and 2010 fiscal years, respectively. The Total Resources per Student Ratio (Current Fund balance divided by the Total number of Fulltime students) is \$288, \$940, and \$2,448 for 2011, 2010, and 2009 fiscal years, respectively.

The job growth in the Houston area during the 2010 – 2011 fiscal years has declined slightly in relation to prior years, but there is projected growth in the energy and professional services sectors. The Charter School wants to become more proactive in blending their elementary program with their after school program and activities in this diverse community.

As a result of the strength and commitment of its faculty, students and parents, the Charter School has positioned itself well to respond to future opportunities and challenges of leadership in constructivist professional development and research.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Letter of Transmittal

Accounting Systems and Annual Budgets

The necessity of legal compliance with applicable laws and regulations related to the state and federal grants requires developing and improving the accounting system and consideration is given to the adequacy of the internal control structure.

The Charter School Planning Panel provides need assessments and prioritizes efforts for the upcoming year. An annual budget is developed for its general fund and each of its separate governmental funds. University policy requires budgeted expenditures to be no more than budgeted revenue. During the course of the fiscal year, the actual to budget amounts are reviewed and modified or adjusted as needed.

Budgetary comparison schedules have been provided to demonstrate compliance with these budgets.

The General Fund budget is adopted annually on a basis consistent with the budgetary basis of accounting. Budgetary requests are submitted so that a budget may be prepared. The budget is presented to the TEA and a final budget must be prepared and adopted no later than January of the following year.

Major Initiatives and Accomplishments

The facility renovation project was completed during 2009-10 and 2010-11 school year with exception of the wall murals and classroom rugs, which will be completed during the 2011-12 school year. The entry was to be completed with the original renovation but funds were not available to begin this phase of the project. The entry project will continue into the 2011-12 school year.

As stated earlier the Camp Construct program has applied for a Licensed Child Care facility. The process began in June 2011 and the School is awaiting the final inspection prior to the issuing of a license. UHCS continues to look at ways to improve the Child Care program that is provided to its students and their families.

The RSCCC student accounting system was purchased and implemented during the 2010-11 school year has been revised and renamed TxEIS. This is the second year UHCS will be utilizing this student accounting system.

Dr. Carolyn Black continues to serve on the Board of Association for Constructionist Teaching (ACT). The ACT annual conference takes place in the Woodlands, Texas, October 20-23, 2011. Several UHCS staff have been selected to present sessions during the conference and UHCS is the site of the preconference school visit. All UHCS staff will attend the conference.

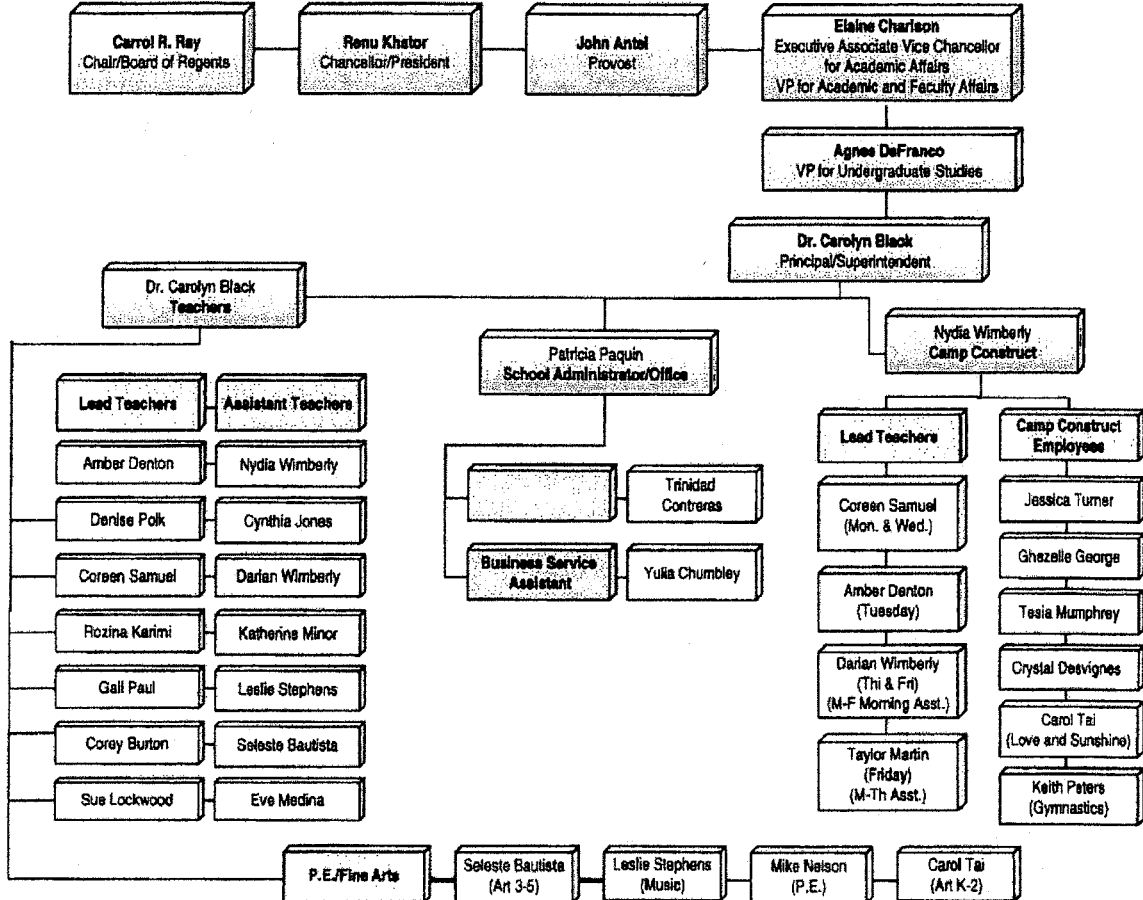
The technological focus of the school continued with the purchase of 35 laptop computers and 3 iPads for student use.

Contacting the Charter School's Financial Management

This financial report is designed to provide a general overview of the Charter School's financial position and to demonstrate the Charter School's accountability for the funds it receives. Any questions regarding this report or requests for additional financial information should be directed to the Office of the Executive Vice Chancellor/Vice President for Administration and Finance, University of Houston, Houston, Texas 77204-2016.

UNIVERSITY OF HOUSTON CHARTER SCHOOL ADMINISTRATIVE ORGANIZATION

University of Houston Charter School 2010-2011



FINANCIAL SECTION



KPMG LLP
811 Main Street
Houston, TX 77002

Independent Auditors' Report

The Board of Regents
University of Houston Charter School:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the University of Houston Charter School (Charter School), a department of the University of Houston System, as of and for the year ended August 31, 2011, which collectively comprise the Charter School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in note 1, the financial statements of the Charter School are intended to present the financial position, and the changes in financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the University of Houston System that is attributable to the transactions of the Charter School. They do not purport to, and do not, present fairly the financial position of the University of Houston System as of August 31, 2011 and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the University of Houston Charter School as of August 31, 2011, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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02/15/2012

AUDIT – C-15

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2012, on our consideration of the Charter School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Budgetary Comparison Schedule – General Fund listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit the required supplementary information, and accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter School's basic financial statements. The Introductory Section, Other Supplementary Information Section and Statistical Section are presented for purposes of additional analysis and are not required as part of the financial statements. The Budgetary Comparison Schedule required by the Texas Education Agency – Child Nutrition and Schedule of Expenses have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole. The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

As discussed in note 7 to the basic financial statements, the Charter School changed its presentation of fund balances in fiscal year 2011 due to the adoption of GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

KPMG LLP

January 17, 2012

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis

August 31, 2011

Introduction

The discussion and analysis of the financial position of the University of Houston Charter School (the Charter School) provides an overview of the activities for the fiscal years ended August 31, 2011 and 2010. This Management's Discussion and Analysis is unaudited and is intended to offer a summary of significant current year activities, resulting changes, and currently known economic conditions and facts.

Overview of the Financial Statements

The Charter School herewith presents its basic financial statements for FY 2011. The basic financial statements have been prepared in accordance with the standards of the Governmental Accounting Standards Board, which establishes generally accepted accounting principles for state and local governments. The Charter School's basic financial statements comprise three components: 1) governmentwide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The governmentwide financial statements presented are the statement of net assets and the statement of activities. The notes to the basic financial statements provide additional information and disclosures that are essential to a complete understanding of the data provided in the governmentwide and fund financial statements. The information contained in the basic financial statements of the Charter School is incorporated within the University of Houston System's Annual Financial Report.

Statement of Net Assets

The statement of net assets reflects all the Charter School's assets and liabilities using the full accrual basis of accounting and represents the financial position as of the conclusion of the fiscal year. Governmentwide financial statements use the economic resources measurement focus and the accrual basis of accounting. Net assets are equal to assets minus liabilities. Unrestricted net assets are available to the Charter School for any lawful purpose. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified. Restricted net assets represent net assets that can be utilized only in accordance with third-party-imposed restrictions.

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Statement of net assets information:			
Assets:			
Current assets	\$ 145,248	256,136	(110,888)
Total assets	<u>\$ 145,248</u>	<u>256,136</u>	
Liabilities:			
Current liabilities	\$ 108,993	129,224	(20,231)
	<u>108,993</u>	<u>129,224</u>	
Net assets:			
Restricted for various programs	31,539	127,628	(96,089)
Unrestricted	4,716	(716)	5,432
Total net assets	<u>36,255</u>	<u>126,912</u>	
Total liabilities and net assets	<u>\$ 145,248</u>	<u>256,136</u>	

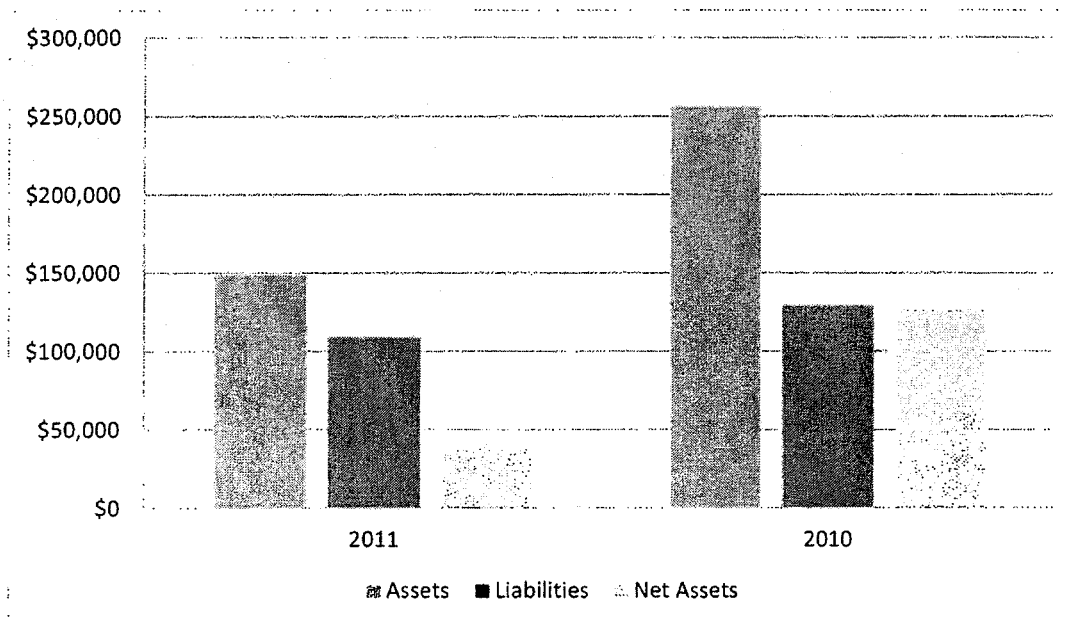
UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis

August 31, 2011

Net Assets 2011 – 2010

Statement of Net Assets Information



Fiscal Year 2011 Compared to 2010

Cash represents almost 99% of the current assets held by the Charter School. Current assets decreased by \$110,888 or 43%. Liabilities increased \$20,231 or 16%. The ending net assets for restricted state and federal programs were decreased by \$96,089. Unrestricted net assets increase by \$5,432.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis

August 31, 2011

Statement of Activities

The statement of activities identifies all of the Charter School's revenues and expenses and measures the results of the Charter School's operations during the fiscal year. All revenues and expenses are included, regardless of when cash is received or paid. Revenues are separated into those provided by external entities, which share the costs of certain programs, and those revenues provided as general revenues. Any revenues or expenses resulting from other than operations would also be displayed on this statement.

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Statements of activities information:			
Revenues:			
Program revenues:			
Charges for services	\$ 131,662	124,496	7,166
Operating grants and contributions	74,355	42,426	31,929
General revenue	<u>1,142,000</u>	<u>1,101,747</u>	40,253
Total revenues	<u>1,348,017</u>	<u>1,268,669</u>	
Program expenses:			
Instruction	798,646	764,564	34,082
Instructional resources and media services	88	790	(702)
Curriculum/instructional staff development	11,320	17,039	(5,719)
School leadership	149,634	159,985	(10,351)
Guidance/counseling and evaluation	3,975	19,889	(15,914)
Student (pupil) transportation	—	610	(610)
Food services	42,849	30,491	12,358
General administration	196,026	155,750	40,276
Plant maintenance and operations	38,655	206,658	(168,003)
Community services	192,003	113,968	78,035
Fundraising	<u>5,478</u>	<u>182</u>	5,296
Total program expenses	<u>1,438,674</u>	<u>1,469,926</u>	
Change in net assets	(90,657)	(201,257)	
Net assets, beginning of year	<u>126,912</u>	<u>328,169</u>	
Net assets, end of year	<u>\$ 36,255</u>	<u>126,912</u>	

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis

August 31, 2011

Fiscal Year 2011 Compared to 2010

The increase in general administration expenses was due to an increase in administrative salaries resulting from the hiring of a school administrator in January 2011. This position was necessary to the organization in order to maintain the business operations and state reporting requirements for the Charter School.

The increase in community services was due to an increase in enrollment in Camp Construct and the establishment of a summer Camp Construct Program during the 2011 school year, as well as the hiring of a business assistant for UHCS. UH Charter School did not provide a summer Camp Construct program during the 2009-10 school year due to facility renovations during the summer of 2010. It was determined in the spring of 2011 that there was a need for a business assistant in the school administrator's office to assist with the business operations of the school. This position was filled in May 2011. The salary for this position was funded through community services.

The increase in food services is attributed to the increased participation in the food service program by the UHCS students. It was a goal of the school to increase participation of students being served by the school breakfast and lunch program. The Charter School had an average of 40 students participate in breakfast and 66 students participate in the lunch program compared to an average of 20 students participating in breakfast and 60 students participating in the lunch program the previous year. The cost of the catered breakfast and lunch meals also increased during the 2010-2011 school year from \$1.09 to \$1.30 for breakfast and \$2.00 to \$2.30 for lunch.

The increase in expenses in fund-raising was due to the increase in fund-raising activities and the increase in field trip activities during the 2010-11 school year.

The decrease in curriculum/instructional staff development expenses is due to UH Charter School staff not attending any out of state conferences during the 2010-11 school year as compared the 2009-10 school year when UH Charter School staff members attended a conference in Illinois.

The decrease in plant maintenance and operations expenses was due to the major renovation and painting of the Charter School facilities during FY10. The completion of this renovation significantly reduced expenditures in this area for FY11.

The decrease in guidance/counseling and evaluation expenses is due to UHCS not having the financial responsibility for salaries for counseling and evaluation services provided during FY11 as compared to FY10. UHCS receives counseling and evaluation services through a Special Education Cooperative. The Cooperative is responsible for the salaries of the individuals providing counseling/evaluation services.

The increase in instruction is attributed to the utilization of previous year balance on the St. Thomas Garden (\$4,000) and Math Grants (\$6,500). Also, the Academic Support grant (\$20,843) was a new award in FY11. The Academic Support grant was used to purchase instructional technology in FY11.

The decrease in expenses in school leadership is attributed to decrease in expenditures from the ACE cost center (\$9,385) associated with the leadership expenses during FY11 as compared to FY10.

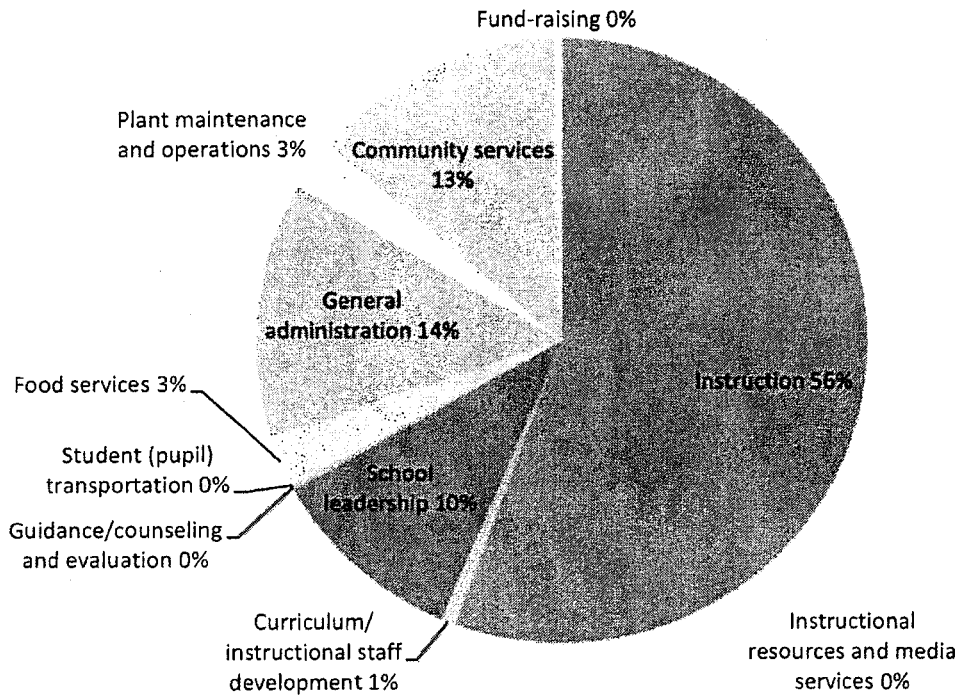
UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis

August 31, 2011

2011 Expenses

2011



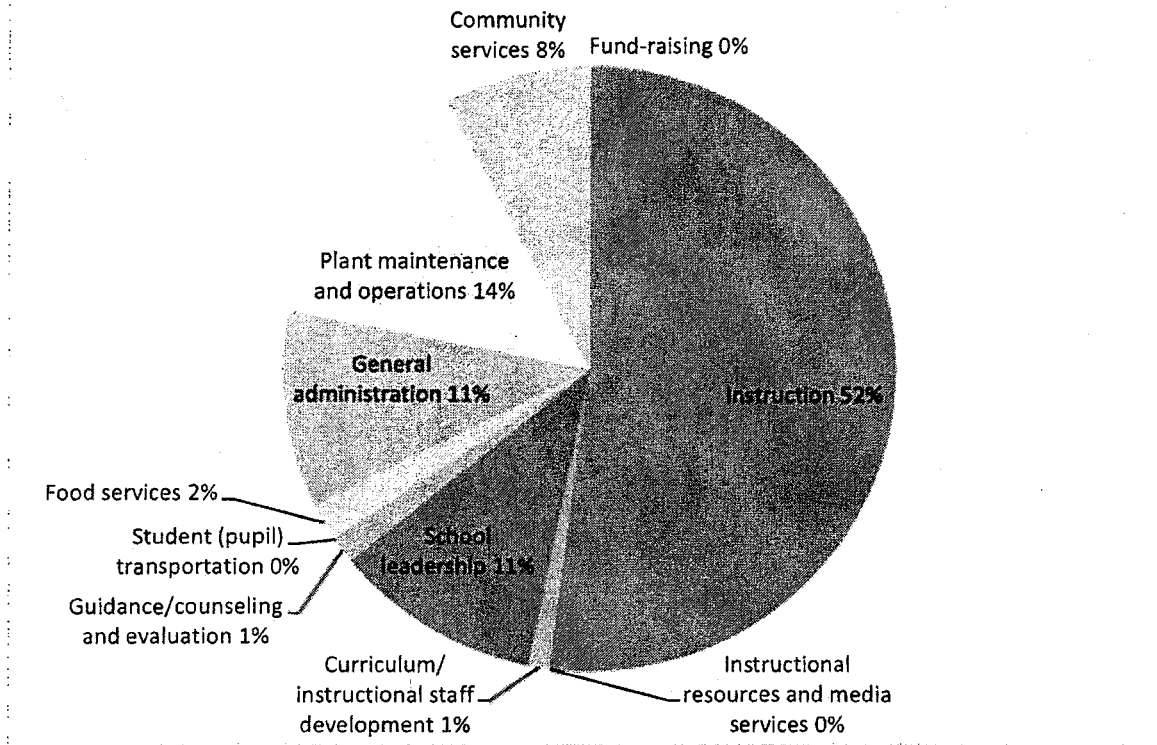
UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis

August 31, 2011

2010 Expenses

2010



The 2011 revenues include sources that are primarily used to provide services to the Charter School's students and are as follows:

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 131,662	124,496	7,166
Operating grants and contributions	74,355	42,426	31,929
Total program revenues	<u>206,017</u>	<u>166,922</u>	<u>39,095</u>
General revenues	<u>1,142,000</u>	<u>1,101,747</u>	<u>40,253</u>
Total general revenues	<u>1,142,000</u>	<u>1,101,747</u>	<u>40,253</u>
Total revenues	<u>\$ 1,348,017</u>	<u>1,268,669</u>	<u>79,348</u>

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis

August 31, 2011

Fiscal Year 2011 Compared to 2010

Program revenue for 2011 increased by \$39,095 and is attributed to the increase participation in the food service program by the UHCS students (\$8,931), the increase in enrollment in Camp Construct and the establishment of a summer Camp Construct Program during the 2011 school year on (\$11,734), and the attainment of the Title XIV, State Fiscal Stabilization Fund federal program (\$20,843).

Nonrestricted grants and contributions, mostly comprising state charter school funding, increased by \$40,253 or 4% and are primarily the result of an increase in the Foundation State Program by \$42,882, offset by the decrease in local sources grants and contributions of \$2,377.

Program expenses are the costs necessary to provide services and to fulfill the mission of the Charter School. Program expenses are displayed in the statement using the functional method of classification and are as follows:

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Program expenses:			
Instruction	\$ 798,646	764,564	34,082
Instructional resources and media services	88	790	(702)
Curriculum/instructional staff development	11,320	17,039	(5,719)
School leadership	149,634	159,985	(10,351)
Guidance/counseling and evaluation	3,975	19,889	(15,914)
Student (pupil) transportation	—	610	(610)
Food services	42,849	30,491	12,358
General administration	196,026	155,750	40,276
Plant maintenance and operations	38,655	206,658	(168,003)
Community services	192,003	113,968	78,035
Fund-raising	5,478	182	5,296
Total program expenses	\$ <u>1,438,674</u>	<u>1,469,926</u>	

The majority of the Charter School's revenue is expended for instructional purposes, which includes teacher and support personnel salaries.

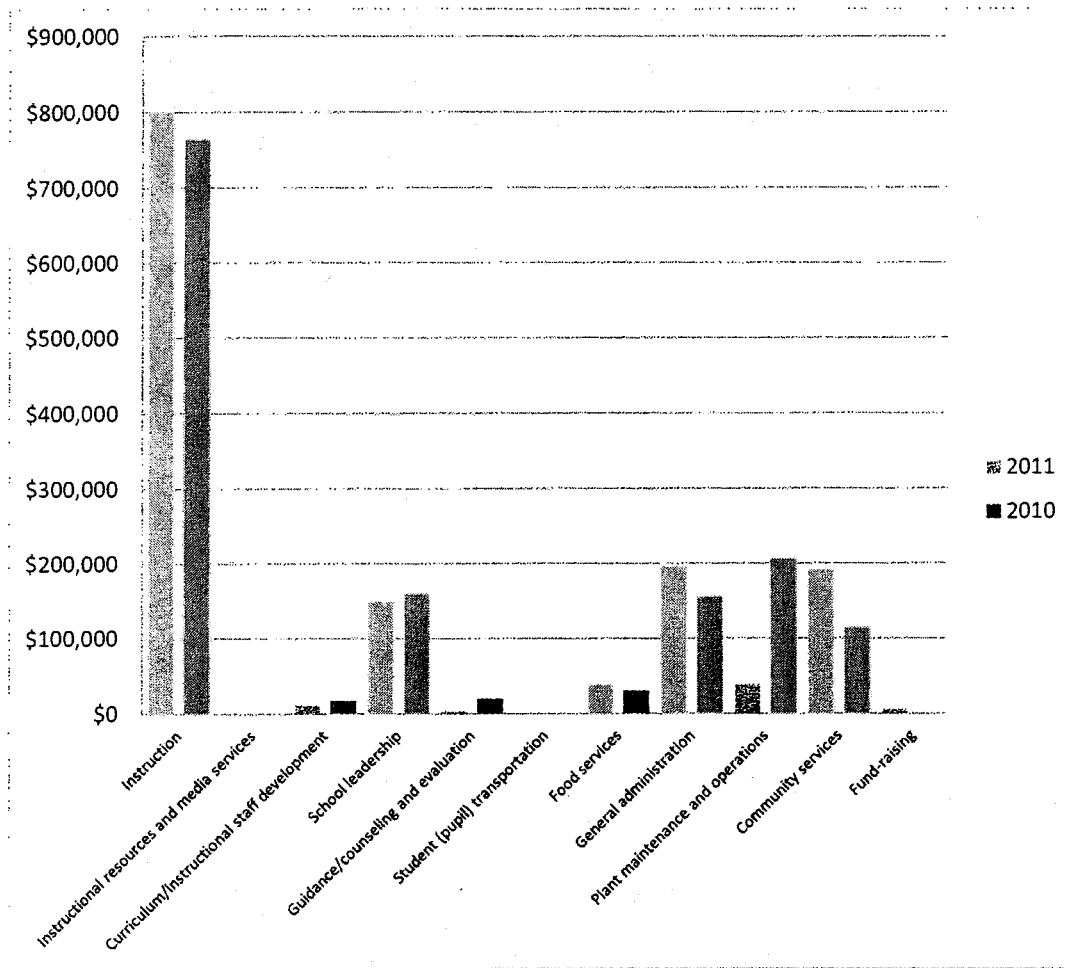
UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis

August 31, 2011

Operating Expenses 2011 – 2010

Operating Expenses



Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific objectives or programs. Contracts and state law require the establishment of some funds. Other funds are created by the Charter School's management to control and manage expenditures for particular purposes. The only category of funds used by the Charter School is governmental funds.

The governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as displaying balances of spendable resources available at the end of the fiscal year. These financial statements use the current financial resources measurement focus and the modified accrual basis of accounting.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis

August 31, 2011

Because these statements provide a detailed short-term perspective of the Charter School's general operations, they may be useful in evaluating a school's near-term financing requirements. Any differences between the broader long-term focus of the governmentwide financial statements (as reported in the statement of net assets and the statement of activities) and the fund financial statements will be displayed in a reconciliation following the end of the governmental fund financial statements.

General Fund – This is the Charter School's primary operating fund. It accounts for all financial resources of the Charter School except those required to be accounted for in another fund. The major revenue source for the General Fund is the state funding under the Foundation School Program. Expenditures include all costs associated with the daily operations of the Charter School except for specific programs funded by the federal or state government, which are required to be accounted for in another fund. The General Fund revenues were \$1,019,804 and \$976,922 for the years ended August 31, 2011 and 2010, respectively.

The General Fund has a budget that is approved by the University of Houston System Board of Regents. The actual General Fund revenue was less than budgeted by \$19,946 and incurred expenses exceeded budget by \$2,760.

UH Allocation – The source of this revenue is an allocation from the University of Houston System Administration General Funds to provide support to the Charter School. These funds are used at the discretion of the Charter School to supplement operating needs. The UH Allocation was \$106,153 for each of the years ended August 31, 2011 and 2010.

Summer Camp/Camp Construct Programs – The source of this revenue is from tuition payments. Funds originated in the Summer Camp and Camp Construct programs are restricted to these programs. The Summer Camp/Camp Construct revenues were \$116,169 and \$104,435 for the years ended August 31, 2011 and 2010, respectively.

Accounting Systems and Annual Budgets

The necessity of legal compliance with applicable laws and regulations related to the state and federal grants requires developing and improving the accounting system and consideration is given to the adequacy of the internal control structure.

The Charter School Planning Panel provides need assessments and prioritizes efforts for the upcoming year. An annual budget is developed for its general fund and each of its separate governmental funds. University policy requires budgeted expenditures to be no more than budgeted revenue. During the course of the fiscal year, the actual to budget amounts are reviewed and modified or adjusted as needed.

Budgetary comparison schedules have been provided to demonstrate compliance with these budgets.

Capital Assets

As of the end of the FY 2011, the Charter School did not possess any reportable capital assets. Such assets would include property, buildings, furniture, and equipment. The University provides building space, a playground area, and parking facilities for use by the Charter School.

Title to capital assets resides with the University, which allocates custody of such assets to the Charter School for its operational needs. Therefore, such assets can be transferred to or from the Charter School at the discretion of

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis

August 31, 2011

the University. Accountability for capital assets is consistent with policies established by the State of Texas. Assets are recorded at cost and are depreciated over the estimated useful life of the asset. Useful life is established by a uniform classification system maintained by the State of Texas and is measured from the date of acquisition. The Charter School capitalizes assets when the acquisition cost exceeds certain threshold values. Funds for the acquisition of any capital assets would be provided from the Charter School's operating revenues.

Noncapital furniture and equipment, including computing equipment, are maintained by the Charter School for its operational needs. Title to these items also resides with the University, which allocates custody to the Charter School. Expenditures for these items are charged to current operating expenses as incurred as they are below the Charter School's capitalization threshold. Funds for the acquisition of such equipment are provided from the Charter School's operating revenues. Additional information regarding the capitalization of assets is in the notes to the financial statements.

Economic Condition and Outlook

Through the use of effective and judicious financial budgeting and management, and the University of Houston's contribution of facilities and other indirect services, the Charter School has been able to satisfy current year expenses with available resources. As previously discussed, the Charter School has no liability obligations other than typical business associated payables, primarily payroll related.

Since the financial operations of the Charter School are considered a governmental organization, the potential for unilateral dissolution by the University of Houston is one of the factors that need to be considered. The two primary financial supporters of the Charter School's operations, the Texas Education Agency and the University of Houston, have demonstrated endorsement of the Charter School's financial and management policies through their continued financial support and commitments in the prior years.

During FY11 the Charter School started pursuing state recognition as a certified child care provider. This certificate can make the Charter School to become eligible for additional funding grant opportunities and Texas Education Agency support. Another measure that the School is considering is the evaluation of its current pricing structure. These two measures will ensure to counteract the increase on the payroll expenses that has occurred during this current year.

Management of neither the Charter School nor the University are aware of any other known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the 2011 – 2012 fiscal years. Although it is not possible to predict ultimate results, management believes the Charter School's financial condition and position are strong.

Debt Administration

The Charter School does not separately issue long-term debt. The Charter School is not currently engaged in any long-term financing transactions. The operating budget for the Charter School is currently structured such that annual financial obligations are satisfied through operating revenues that are received during each current fiscal year.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Management's Discussion and Analysis

August 31, 2011

Contacting the Charter School's Financial Management

This financial report is designed to provide a general overview of the Charter School's financial position and to demonstrate the Charter School's accountability for the funds it receives. Any questions regarding this report or requests for additional financial information should be directed to the Office of the Executive Vice Chancellor/Vice President for Administration and Finance, University of Houston, Houston, Texas 77204-2016.

BASIC FINANCIAL STATEMENTS

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Statement of Net Assets

August 31, 2011

<u>Data control codes</u>			
	Assets:		
1110	Cash	\$	144,435
1240	Due from other governments		263
1290	Other receivables		550
			145,248
1000	Total assets		145,248
	Liabilities:		
2110	Accounts payable		—
2150	Payroll deductions and withholdings		36,385
2160	Accrued wages payable		42,712
2210	Employees' compensable leave (other accrued expenses)		29,896
			108,993
2000	Total liabilities		108,993
	Net assets:		
3800	Restricted for various programs:		
	Summer camp construct programs		15,141
	Other nonmajor funds		16,398
3900	Unrestricted		4,716
			36,255
3000	Total net assets	\$	36,255

See accompanying notes to basic financial statements.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Exhibit B-1

Statement of Activities
Year ended August 31, 2011

Data control codes	Functions/programs	Expenses	Program revenues		Net revenue (expense) and changes in net assets
			Operating grants and contributions	Charges for services	
	Governmental activities:				
11	Instruction	\$ 798,646	(45,001)	—	753,645
12	Instructional resources and media services	88	—	—	88
13	Curriculum and instructional staff development	11,320	—	—	11,320
23	School leadership	149,634	—	—	149,634
31	Guidance counseling, and evaluation services	3,975	(3,633)	—	342
34	Student (pupil) transportation	—	—	—	—
35	Food services	42,849	(25,721)	(15,493)	1,635
41	General administration	196,026	—	—	196,026
51	Plant maintenance and operation	38,655	—	—	38,655
61	Community services	192,003	—	(116,169)	75,834
81	Fund raising	5,478	—	—	5,478
TG	Total governmental activities	\$ 1,438,674	(74,355)	(131,662)	1,232,657
	General revenues:				
GC	Grants and contribution not restricted to specific function				1,142,000
CN	Change in net assets				(90,657)
NB	Net assets, beginning of year				126,912
NE	Net assets, end of year				\$ 36,255

See accompanying notes to basic financial statements.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Balance Sheet – Governmental Funds

Year ended August 31, 2011

Data control codes		Major funds			Nonmajor funds	Total governmental funds
		General fund	UH allocation	Summer camp/camp construct		
	Assets:					
1110	Cash	\$ 69,272	28,708	26,227	20,228	144,435
1240	Due from other governments	—	—	—	263	263
1290	Other receivable	—	—	440	110	550
1000	Total assets	\$ 69,272	28,708	26,667	20,601	145,248
	Liabilities:					
2110	Accounts payable	\$ —	—	—	—	—
2150	Payroll deductions and withholdings	32,117	—	3,218	1,050	36,385
2160	Accrued wages payable	35,671	—	5,823	1,218	42,712
2000	Total liabilities	67,788	—	9,041	2,268	79,097
	Fund balances:					
3450	Restricted for Child Nutrition	—	—	—	5,942	5,942
	Restricted for fund balances:					
3490	Summer camp/camp construct	—	—	17,626	—	17,626
3450/3490	Restricted for various programs	—	—	—	10,456	10,456
3590	Assigned	—	28,708	—	1,935	30,643
3600	Unassigned	1,484	—	—	—	1,484
3000	Total fund balances	1,484	28,708	17,626	18,333	66,151
4000	Total liabilities and fund balance	\$ 69,272	28,708	26,667	20,601	
	Employee compensable leave is not due and payable in the current period and, therefore, not reported in the funds					(29,896)
	Net assets of Charter School					\$ 36,255
2210	Employees' compensable leave (other accrued expenses)	\$ —	27,411	2,485	—	29,896

See accompanying notes to basic financial statements.

UNIVERSITY OF HOUSTON CHARTER SCHOOL
 Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
 Year ended August 31, 2011

Data control codes		Major funds			Total governmental funds	
		General fund	UH allocation	Summer camp/camp construct		Nonmajor funds
	Revenues:					
5700	Local and intermediate sources	\$ —	106,153	116,169	31,536	253,858
5800	State program revenues	1,019,804	—	—	6,850	1,026,654
5900	Federal program revenues	—	—	—	67,505	67,505
5000	Total revenues	1,019,804	106,153	116,169	105,891	1,348,017
	Expenditures:					
	Current:					
0011	Instruction	733,073	40	—	65,147	798,260
0012	Instructional resources and media services	88	—	—	—	88
0013	Curriculum and instructional staff development	7,746	1,445	—	2,119	11,310
0023	School leadership	136,190	7,505	—	7,077	150,772
0031	Guidance, counseling, and evaluation services	520	—	—	3,698	4,218
0035	Food services	—	—	—	42,849	42,849
0041	General administration	162,741	32,956	—	1,176	196,873
0051	Plant maintenance and operation	2,152	36,504	—	—	38,656
0061	Community services	—	—	190,923	—	190,923
0081	Fund raising	—	—	—	5,478	5,478
6000	Total expenditures	1,042,510	78,450	190,923	127,544	1,439,427
	Excess (deficiency) of revenues over (under) expenditures	(22,706)	27,703	(74,754)	(21,653)	(91,410)
	Net change in fund balance	(22,706)	27,703	(74,754)	(21,653)	(91,410)
	Fund balances, beginning of year	24,190	1,005	92,380	39,986	157,561
3000	Fund balances, end of year	\$ 1,484	28,708	17,626	18,333	66,151
	Net change in fund balance, per above					\$ 91,410
	Compensable absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds					(753)
	Change in net assets, per statement of activities					\$ 90,657

See accompanying notes to basic financial statements.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

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UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Basic Financial Statements

August 31, 2011

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The University of Houston Charter School (the Charter School) is chartered by the State Board of Education and accredited by the Texas Education Agency (TEA). The charter is held by the University of Houston System (the University). The University is accredited with the Southern Association of Colleges and Schools. Courses are developed to the Texas Essential Knowledge and Skills (TEKS) objectives and are TEKS compliant. The Charter School is a model constructivist elementary school that implements a curriculum in which children develop cognitively, socially, morally, and physically based on a sustained mental action. The Charter School provides educational curriculum to prekindergarten through the fifth grade. The Charter School's administrators and staff are degreed and certified for the positions to which they are assigned.

The Principal of the Charter School reports to management personnel of the University and the operations of the Charter School are overseen by a committee of the University's Board of Regents.

The Charter School is a department of the University. These financial statements present financial information that is attributable to the Charter School and do not purport to, and do not present fairly, the financial position of the University.

(b) Governmentwide and Fund Financial Statements

Basis of Presentation

The basic financial statements of the Charter School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units in conjunction with the TEA's Financial Accountability System Resource Guide (Resource Guide). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Charter School follows the applicable pronouncements of GASB and pronouncements of Financial Accounting Standards Board (FASB) issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements as they relate to governmental entities. Accordingly, the Charter School has presented the following sets of financial statements:

Governmentwide Financial Statements

The statement of net assets and the statement of activities include the financial activities of the government as a whole. Governmental activities generally are financed through intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between program direct expenses and revenues for each function of the Charter School's governmental activities. Direct expenses are those that are associated with specific programs and/or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges for services, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All other revenues are presented as general revenues.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Basic Financial Statements

August 31, 2011

Fund Financial Statements

The fund financial statements provide information about the Charter School's funds, which are all classified as governmental funds. The fund financial statements are categorized into major and nonmajor funds. Major governmental funds are displayed in separate columns. Nonmajor governmental funds are reported in the aggregate.

The Charter School reports the following major governmental funds:

General Fund – This is the Charter School's primary operating fund. It accounts for all financial resources of the Charter School except those required to be accounted for in another fund. The major revenue source for the General Fund is the state funding under the Foundation School Program. Expenditures include all costs associated with the daily operations of the Charter School except for specific programs funded by the federal or state government, which are required to be accounted for in another fund.

UH Central Allocation – The source of this revenue is an allocation from the University of Houston System Administration General Funds to provide support to the Charter School. These funds are used at the discretion of the Charter School to supplement operating needs.

Summer Camp/Camp Construct Programs – The source of this revenue is from tuition payment. Funds originated in the Summer Camp and Camp Construct programs are restricted to these programs.

(c) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Governmentwide Financial Statements

Governmentwide financial statement presentation is based on the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Charter School gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue received in cash for which eligibility requirements are not yet satisfied is reported as unearned revenue in the statement of net assets. As of August 31, 2011, the Charter School did not have any unearned revenue.

Governmental Funds' Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Charter School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Basic Financial Statements

August 31, 2011

Revenues received from federal, state, and local grants are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Expenditures are recorded when the related fund liability is incurred.

(d) Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

For financial statement purposes, the Charter School considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

The Charter School maintains all its cash with the University's Treasury (the Treasury). The University maintains accounts with financial institutions.

2. Deposits and Investments

The Charter School's funds are deposited with the Treasury and are not required to be maintained by the Treasury in a separate depository account with financial institutions. The Treasury maintains deposits with financial institutions in the name of the University. The Charter School reconciles the revenues and expenses in a monthly basis. The Charter School does not maintain investments of any kind, which is in compliance with the Charter School's investment policy.

3. Receivables and Payables

The Charter School believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided to further disaggregate those balances. All receivables are scheduled for collection within one year from year-end.

4. Capital Assets

Expenditures of \$5,000 or more to acquire individual assets are capitalized. Capitalized assets are recorded at cost. Donated capital assets are capitalized and recorded at their fair value when received. Capitalized assets are depreciated on a straight-line basis over the estimated useful lives of the assets. Repairs and maintenance costs are charged to expenses when incurred. The Charter School did not have any capitalized assets as of August 31, 2011. The University provides the Charter School with building facilities, furniture, playground, and parking facilities. Title to these capital assets resides with the University.

5. Compensated Absences

Employees of the Charter School are entitled to paid vacation and sick days depending on length of service. Employees with more than 35 years of service can carry over 532 hours of earned but unused vacation time at the end of each calendar year to the following calendar year. Employees with less than 35 years of service can carry forward less than 532 hours of earned but unused vacation time at the end of each calendar year to the following calendar year, based on a graduated scale tied to the length of service. Accrued leave in excess of the

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Basic Financial Statements

August 31, 2011

normal maximum is converted to sick leave at the conclusion of the fiscal year. Employees with at least six months of service who terminate their employment are entitled to payment for all accumulated unused vacation. Unpaid compensable absences of \$29,896 as of August 31, 2011 have been recorded in the accompanying financial statements.

6. Long-Term Obligations

The Charter School does not separately issue long-term debt. The Charter School is not currently engaged in any long-term financing transactions.

7. Net Assets/Fund Balances

Unrestricted net assets include resources not restricted to any programs or functions, which are available to support the programs and activities of the Charter School in general. The amount available for this purpose as of August 31, 2011 was \$4,716.

Restricted net assets amounted to \$31,539 and are restricted to various programs but not specific to functions as of August 31, 2011.

The School implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011. In the fund financial statements, governmental funds report the following classifications of fund balance:

Restricted – Amounts that are restricted to specific purposes which have been externally imposed by creditors, grantors, contributors or laws or regulations or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts that are intended for a specific purpose but do not meet the definition of restricted or committed.

Unassigned - Amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the General Fund.

The details of the fund balances are included in the governmental funds balance sheet.

When the Charter School incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the Charter School's policy to use restricted resources first, then unrestricted resources.

When an expenditure is incurred for which assigned, or unassigned fund balances are available, the School considers amounts to have been spent first out of assigned funds, and then unassigned funds, as needed.

8. Data Control Codes

Data control codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Basic Financial Statements

August 31, 2011

9. Income Taxes

The Charter School is a department of the University, which is a local government exempt from income taxes under Section 115(a) of the Internal Revenue Code. Accordingly, income taxes are not provided for in the accompanying financial statements.

(e) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures.

(2) Other Information

(a) Risk Management

1. General

Approximately 76% of the Charter School's revenues for fiscal year 2011 were provided by the State of Texas.

2. Healthcare Coverage and Risk Management

The University provides healthcare benefits to all the Charter School's employees who meet the University's employment qualifications and requirements. Contributions are required from the Charter School's employees for coverage of their dependents and for higher level of coverage beyond standard benefits. During the year, the University deducted amounts from the Charter School's cash accounts to cover the Charter School's portion of healthcare coverage, based on an allocation determined by the state, and records a corresponding expense. Healthcare benefits costs attributable to the Charter School for fiscal years 2011, 2010, and 2009 were \$100,068, \$90,649, and \$81,315, respectively.

3. Risk of Loss

The Charter School is exposed to various risks of loss related to torts, injuries to employees, and natural disasters. The University of Houston System carries commercial insurance to cover losses to which the Charter School may be exposed.

(b) Contingent Liabilities

The Charter School receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the TEA and is subject to audit and adjustment. In addition, costs charged to federal programs are subject to audit and adjustment by the grantor agencies. The programs administered by the Charter School have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, Charter School funds may be subject to refund if so determined by the TEA or the grantor agencies. In the opinion of the Charter School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the various state and federal program grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Notes to Basic Financial Statements

August 31, 2011

(c) Pension Plan

All employees of the Charter School, who are not exempt from membership under the Texas Constitution and Texas Government Code, Title 8, Subtitle C, Section 822.002, participate in the Teacher Retirement System of Texas (TRS), a public employee retirement system. It is a cost sharing multiple-employer defined benefit pension plan with the liability for all risks and costs for the State of Texas. All Charter School employees, except those employed for less than one half the standard work load and who are not exempt by law, are required to participate in TRS as a condition of employment. Benefits are established by state statute and vary based on age at retirement along with number of years of state service.

By statute, covered employees must contribute 6.4% of their salary to the plan and the Charter School contributes an amount equal to 6% times the aggregate annual compensation during the fiscal year. The TRS provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The TRS operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, TRS, which is subject to amendment by the Texas Legislature. The TRS's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling 800-877-0123.

The Charter School's total contribution to the TRS for the years ended August 31, 2011, 2010, and 2009 was \$53,544, \$49,768, and \$48,003, respectively. These contributions represent 100% of the required contribution.

(d) Related-Party Transactions

For the fiscal year ended August 31, 2011, the University provided the Charter School with direct funding in the amount of \$106,153 in fiscal year 2011. The amount has been included in the revenues reported in the financial statements for the year.

In addition, the University provided the Charter School with management oversight and other administrative human resources support, office and classroom building facilities, transportation equipment, playground equipment, and certain other services and supplies estimated at \$111,416 for fiscal year 2011. The University provided the Charter School with indirect support for operation and maintenance estimated at \$66,324.

(e) Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, violations of finance-related legal and contractual provision, if any, should be disclosed along with actions taken to address such violations. Management of the Charter School believes that it has not violated any finance-related legal and contractual provisions for the fiscal year ended August 31, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

Unaudited

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Schedule G-1

Budgetary Comparison Schedule – General Fund

Year ended August 31, 2011

Unaudited

Data control codes		Budgeted amounts		Actual	Variance with final budget positive (negative)
		Original	Final		
	Revenues:				
5700	Local and intermediate sources	\$ —	\$ —	\$ —	\$ —
5800	State program revenues	1,039,750	1,039,750	1,019,804	19,946
5000	Total revenues	1,039,750	1,039,750	1,019,804	19,946
	Expenditures:				
	Current:				
	Instruction and instruction related services:				
0011	Instruction	748,500	748,500	733,073	15,427
0012	Instructional resources and media services	6,182	6,182	88	6,094
0013	Curriculum and instructional staff development	3,092	3,092	7,746	(4,654)
	Total instruction and instruction related services	757,774	757,774	740,907	16,867
	Instructional and school leadership:				
0021	Instructional leadership	—	—	—	—
0023	School leadership	154,882	154,882	136,190	18,692
	Total instruction and school leadership	154,882	154,882	136,190	18,692
	Support services student:				
0031	Guidance, counseling, and evaluation services	2,800	2,800	520	2,280
0034	Student (pupil) transportation	—	—	—	—
0035	Food services	—	—	—	—
	Total guidance and counseling	2,800	2,800	520	2,280
	Administrative support services:				
0041	General administration	122,594	122,594	162,741	(40,147)
	Total administrative support services	122,594	122,594	162,741	(40,147)
	Support services nonstudent based:				
0051	Plant maintenance and operations	1,700	1,700	2,152	(452)
	Total plant maintenance	1,700	1,700	2,152	(452)
	Other support:				
0061	Community services	—	—	—	—
0081	Fund raising	—	—	—	—
	Total expenditures	1,039,750	1,039,750	1,042,510	(2,760)
	Excess (deficiency) of revenues over (under) expenditures	—	—	(22,706)	22,706
	Net change in fund balance	—	—	(22,706)	22,706
	Fund balances, beginning of year	24,190	24,190	24,190	—
3000	Fund balances, end of year	\$ 24,190	\$ 24,190	\$ 1,484	\$ 22,706

See accompanying note to required supplementary information.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Note to Required Supplementary Information

Year ended August 31, 2011

Unaudited

Budgetary Information

Annually, a General Fund budget is adopted on a basis consistent with generally accepted accounting principles. Budgetary requests are submitted so that a budget may be prepared. The budget is presented to the Texas Education Agency and a final budget must be prepared and adopted no later than January of the following year.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Schedule J-1

Child Nutrition

Budgetary Comparison Schedule

Year ended August 31, 2011

Unaudited

Data control codes		Budgeted amounts		Actual	Variance with final budget positive (negative)
		Original	Final		
	Revenues:				
5700	Local and intermediate sources	\$ 8,251	8,251	15,493	(7,242)
5800	State program revenues	1,405	1,405	258	1,147
5900	Federal program revenues	13,826	13,826	25,464	(11,638)
5000	Total revenues	23,482	23,482	41,215	(17,733)
	Expenditures:				
	Current:				
0035	Food services	22,300	22,300	42,849	(20,549)
		22,300	22,300	42,849	(20,549)
	Other support:				
0099	Other intergovernmental charges	—	—	—	—
		—	—	—	—
6000	Total expenditures	22,300	22,300	42,849	(20,549)
	Excess (deficiency) of revenues over (under) expenditures	1,182	1,182	(1,634)	2,816
	Net change in fund balance	1,182	1,182	(1,634)	2,816
	Fund balances, beginning of year	7,576	7,576	7,576	—
3000	Fund balances, end of year	\$ 8,758	8,758	5,942	2,816

See accompanying note to other supplementary information.

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Schedule of Expenses

Year ended August 31, 2011

<u>Data control codes</u>			
	Expenses:		
6100	Payroll costs	\$	1,126,074
6200	Professional and contractual services		68,818
6300	Supplies and materials		189,847
6400	Other operating costs		53,935
	Total expenses	\$	<u>1,438,674</u>

See accompanying note to other supplementary information.

OTHER SUPPLEMENTARY INFORMATION

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Note to Other Supplementary Information

Year ended August 31, 2011

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and is not considered a part of the basic financial statements. It may, however, include information that is required by other entities such as Texas Education Agency.

STATISTICAL SECTION

Unaudited

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Statistical Section

Unaudited

The statistical section of the University of Houston Charter School's (the Charter School) comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Charter School's overall financial health.

Contents

Financial Trends

These schedules contain information to help the reader understand how the Charter School's financial performance has changed over time.

FINANCIAL TRENDS

Unaudited

UNIVERSITY OF HOUSTON CHARTER SCHOOL

General Revenues and Total Changes in Net Assets

Unaudited

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Grants and contributions:			
Charges for services	\$ 131,662	124,496	7,166
Operating grants and contributions	74,355	42,426	31,929
General revenue	<u>1,142,000</u>	<u>1,101,747</u>	<u>40,253</u>
Total grants and contributions	<u>1,348,017</u>	<u>1,268,669</u>	<u>79,348</u>
Operating expenses:			
Instruction	798,646	764,564	34,082
Instructional resources and media services	88	790	(702)
Curriculum/instructional staff development	11,320	17,039	(5,719)
School leadership	149,634	159,985	(10,351)
Guidance/counseling and evaluation	3,975	19,889	(15,914)
Student (pupil) transportation	—	610	(610)
Food services	42,849	30,491	12,358
General administration	196,026	155,750	40,276
Plant maintenance and operations	38,655	206,658	(168,003)
Community services	192,003	113,968	78,035
Fund raising	<u>5,478</u>	<u>182</u>	<u>5,296</u>
Total operating expenses	<u>1,438,674</u>	<u>1,469,926</u>	<u>(31,252)</u>
Change in net assets	<u>(90,657)</u>	<u>(201,257)</u>	<u>110,600</u>
Net assets, beginning of year	<u>126,912</u>	<u>328,169</u>	<u>(201,257)</u>
Net assets, end of year	<u>\$ 36,255</u>	<u>126,912</u>	<u>(90,657)</u>

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Governmental Funds Fund Balances

Last Two Fiscal Years
(Modified Accrual Basis of Accounting)

Unaudited

	<u>Fiscal year</u>	
	<u>2011</u>	<u>2010</u>
Fund balances:		
Restricted for various programs	\$ 34,024	129,452
Assigned	30,643	3,919
Unassigned	1,484	24,190
Total fund balances	<u>\$ 66,151</u>	<u>157,561</u>

Governmental Funds Revenues

Last Two Fiscal Years

	<u>Fiscal year</u>	
	<u>2011</u>	<u>2010</u>
Local sources:		
UH allocation, Summer Camp and ACE Charity	\$ 238,364	229,261
Miscellaneous local sources	15,494	20,061
Total local sources	<u>253,858</u>	<u>249,322</u>
State sources:		
State program revenues	<u>1,026,654</u>	<u>982,102</u>
Total state sources	<u>1,026,654</u>	<u>982,102</u>
Federal sources:		
Federal program revenues	<u>67,505</u>	<u>37,245</u>
Total federal sources	<u>67,505</u>	<u>37,245</u>
Total revenues	<u>\$ 1,348,017</u>	<u>1,268,669</u>

UNIVERSITY OF HOUSTON CHARTER SCHOOL

Governmental Funds Expenditures

Last Two Fiscal Years

Unaudited

	Fiscal year	
	2011	2010
Instruction	\$ 798,260	761,739
Instructional resources and media services	88	790
Curriculum/instructional staff development	11,310	17,128
School leadership	150,772	159,985
Guidance/counseling and evaluation	4,218	20,187
Student (pupil) transportation	—	610
Food services	42,849	30,621
General administration	196,873	155,750
Plant maintenance and operations	38,656	206,658
Community services	190,923	114,054
Fund raising	5,478	182
Total expenditures	\$ 1,439,427	1,467,704

Indirect Support

Fiscal year ended August 31, 2011

UH – Space occupied	6,100,056.00	Sq.ft
Charter School – Space occupied	11,369.00	Sq.ft
Percentage Charter School for operation and maintenance of plant	0.001864	
UH operation and maintenance expenses	\$ 35,586,377	
Amount of indirect support for operation and maintenance	66,324	
UH operating expenses	737,249,233	
Charter School operating expenses	1,438,674	
Percentage Charter School for institutional support	0.0019514	
UH institutional support	\$ 57,095,308	
Amount of indirect support for institutional support	111,416	

UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Audit and Compliance

ITEM: Report on External Audit Report – UH Athletics Department Independent Accountants' Report on the Application of Agreed-Upon Procedures for Year ended August 31, 2011

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Audit & Compliance Committee Charter and Checklist, item number 13, requires the Committee to review any significant findings and recommendations of the State Auditor and any employed public accounting firm or outside expertise.

The key points from the report include the following:

- Independent Accountants' Report on the Application of the Agreed-Upon Procedures (page 2)
- Exhibit A – Results of Agreed-Upon Procedures on the Statement of Revenues and Expenses of the Intercollegiate Athletics Department (page 3)
- Statement of Revenues and Expenses (page 23)
- Notes to Statement of Revenues and Expenses (page 24)

SUPPORTING

DOCUMENTATION: External Audit Report – UH Athletics Department Independent Accountants' Report on the Application of Agreed-Upon Procedures for Year ended August 31, 2011

FISCAL NOTE: None

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System

CHIEF AUDIT EXECUTIVE

Don Guyton

Don Guyton

DATE

1/25/12

CHANCELLOR

Renu Khator

Renu Khator

DATE

1/31/12



UNIVERSITY OF HOUSTON

Statement of Revenues and Expenses of the Intercollegiate
Athletics Department

Year ended August 31, 2011

(With Independent Accountants' Report on the Application of
Agreed-Upon Procedures Thereon)



KPMG LLP
811 Main Street
Houston, TX 77002

Independent Accountants' Report on the Application of Agreed-Upon Procedures

The President of the University of Houston and
Management of the Intercollegiate Athletics
Department of the University of Houston:

We have performed the procedures enumerated in Exhibit A (attached), which were agreed to by you and management, solely to assist the University of Houston (the University) in evaluating whether the accompanying Statement of Revenues and Expenses (the Statement) of the Intercollegiate Athletics Department of the University is in compliance with the National Collegiate Athletic Association (NCAA) Bylaw 3.2.4.16 for the year ended August 31, 2011. The University's management is responsible for the Statement and the Statement's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Exhibit A either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the compliance of the accompanying Statement. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 13, 2012

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues
and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
1. We will obtain the Statement of Revenues and Expenses (the Statement) for the year ended August 31, 2011 as prepared by management of the Intercollegiate Athletics Department (IAD) of the University of Houston (the University). We will recalculate the addition of amounts reported in the Statement for mathematical accuracy and compare and agree the amounts reported to the general ledger.	No	No exceptions were noted as a result of applying this procedure.
2. We will compare actual revenues and expenditures in the Statement for the year ended August 31, 2011 to the corresponding amounts reported in the prior fiscal year Statement. As agreed, for variances greater than 10% and \$100,000 we will obtain explanations from University IAD management regarding the reasons for the variations.	No	<p>We performed this procedure for each category reported on the Statement. Management explanations of variances meeting the specified threshold are reflected below.</p> <p>Fiscal year 2011 guarantees received revenue decreased by \$145 thousand and 20%, as compared to fiscal year 2010 guarantees received revenue due to the game guarantee contracts being for lesser amounts than those received in fiscal year 2010.</p> <p>Fiscal year 2011 direct institutional support revenue increased by \$3.1 million and 24%, as compared to fiscal year 2010 direct institutional support revenue due to athletics requesting additional support during the budgeting process for 2011 as compared to 2010. During the budgeting process for 2011, expenses were expected to be consistent with fiscal year 2010; however, revenue was expected to be approximately \$3 million less resulting in more institutional support for fiscal year 2011.</p>

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues
and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
		<p>Fiscal year 2011 NCAA/conference distribution revenue decreased \$0.8 million and 21%, as compared to fiscal year 2010 NCAA/conference distribution revenue primarily due to the football team not participating in a conference championship or bowl game during fiscal year 2011.</p> <p>Fiscal year 2011 royalty, advertisements, and sponsorship revenue increased by \$0.3 million and 24%, as compared to fiscal year 2010 royalty, advertisements, and sponsorship revenue due to the University entering into a new royalty agreement with IMG along with the Athletics Department transferring their merchandising rights (i.e., the right to sell University of Houston licensed merchandise) from the Collegiate Licensing Company to the Licensing Resource Group.</p> <p>Fiscal year 2011 other revenues decreased by \$0.5 million and 26%, as compared to fiscal year 2010 other revenues primarily due to fewer Houston Dynamo games being hosted in fiscal year 2011. In fiscal year 2011 the University hosted 19 games compared to 25 games in fiscal year 2010.</p> <p>Fiscal year 2011 severance payments expense decreased by \$209 thousand and 75%, as compared to fiscal year 2010 severance payments – coaches due to fewer coaching staff changes in fiscal year 2011 than in fiscal year 2010.</p> <p>Fiscal year 2011 team travel expense decreased by \$0.3 million and 11%, as compared to fiscal year 2010 game expense due to the football team playing only six away games with one of these six games being played at Rice University in Houston,</p>

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
		<p>Texas. The football team participated in eight road games during fiscal year 2010 including the conference championship and a bowl game.</p> <p>Fiscal year 2011 direct facilities, maintenance, and rental expense decreased by \$0.5 million and 10%, as compared to fiscal year 2010 medical and insurance expense due to fewer Houston Dynamo games being hosted in fiscal year 2011. In fiscal year 2011 the University hosted 19 games compared to 25 games in fiscal year 2010.</p> <p>Fiscal year 2011 medical and insurance expense decreased by \$132 thousand and 19%, as compared to fiscal year 2010 medical and insurance expense due to fewer surgeries being performed in fiscal year 2011, as well as efforts by the Athletics Department to establish flat rate surgery fees with preferred medical groups.</p>
<p>3. We will compare actual revenues and expenditures in the Statement for the year ended August 31, 2011 to the corresponding budgeted amounts for the same fiscal year. As agreed, for variances greater than 10% and \$100,000 we will obtain explanations from University IAD management regarding the reasons for the variations.</p>	<p>No</p>	<p>We performed this procedure for each category reported on the Statement. Management explanations of variances meeting the specified threshold are reflected below.</p> <p>Actual fiscal year 2011 contributions revenue was higher by \$0.6 million and 25%, as compared to budgeted fiscal year 2011 contributions revenue due increased fundraising activities performed by coaching staffs to solicit donations. Further, the University has increased fundraising efforts in order to solicit contributions for the renovation/expansion of Robertson Stadium.</p> <p>Actual fiscal year 2011 NCAA/conference distribution revenue was lower by \$481 thousand and 14%, as compared to budgeted fiscal year 2011</p>

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
		<p>NCAA/conference distribution revenue due to the football team not appearing in a conference championship or bowl game in fiscal year 2011. Based on the football team's performance in recent years and their appearance in the Conference USA championship in fiscal year 2010, the Athletics Department included an expectation of post-season revenue to be earned by the football team. Unanticipated injuries at key positions contributed to the team finishing with a 5-7 record. As such, they did not qualify for a bowl game and did not earn the expected post-season revenue that was originally budgeted.</p> <p>Actual fiscal year 2011 program sales, concessions, novelties, and parking revenue was higher by \$663 thousand and over 100%, as compared to budgeted fiscal year 2011 program sales, concessions, novelties, and parking revenue due to unbudgeted revenues earned by hosting Houston Dynamo games at Reliant Stadium. Revenue from hosting Houston Dynamo games is not included in the budgeting process because of uncertainty in the number of games the team will play at Robertson Stadium. Additionally, the number of games can vary significantly from year to year as the Dynamo organization has no stipulation outlining a minimum number of games that must be played at the University. As such, no Houston Dynamo games were included in the fiscal year 2011 budget.</p> <p>Actual fiscal year 2011 other revenues were higher by \$542 thousand and 56%, as compared to budgeted fiscal year 2011 other revenues primarily due to unbudgeted revenues earned by hosting Houston Dynamo games at Reliant Stadium of</p>

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
		<p>\$1.1 million. As noted above, revenue from hosting Houston Dynamo games is not included in the budgeting process because of uncertainty in the number of games the team will play at Robertson Stadium. As such, no Houston Dynamo games were included in the fiscal year 2011 budget. This amount was offset by rentals to other various vendors, which in aggregate was \$590 thousand less than expected.</p> <p>Actual fiscal year 2011 team travel expense was lower by \$301 thousand and 13%, as compared to budgeted fiscal year 2011 team travel expense due to the budgeting process taking place before athletics schedules are finalized for the upcoming years. As such, the team travel expense budget reflects the best estimate based the prior year's travel expenses. In fiscal year 2010, the football team incurred significant travel expenses due to their participation in the Conference USA Championship game and the Armed Forces Bowl, but the football had finished with a 5-7 record in fiscal year 2011, preventing them from participating in a championship or bowl game and thereby incurring lower than budgeted travel expenses.</p> <p>Actual fiscal year 2011 equipment, uniforms, and supplies expense was lower by \$138 thousand and 14%, as compared to budgeted fiscal year 2011 equipment, uniforms, and supplies expense due to steps taken by the Athletics Department in order to increase accountability for coaches to stay within their allotted equipment budgets. These efforts to decrease spending for equipment, uniforms, and supplies resulted in lower than expected expenses</p>

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues
and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
		<p>for fiscal year 2011.</p> <p>Actual fiscal year 2011 games expense was higher by \$208 thousand and 15%, as compared to budgeted fiscal year 2011 games expense due to unbudgeted expenses incurred in hosting Houston Dynamo games at Robertson Stadium. Expenses from hosting Houston Dynamo games are not included in the budgeting process because of uncertainty in the number of games the team will play at Robertson Stadium. The number of games can vary significantly from year to year as the Dynamo organization has no stipulation outlining a minimum number of games that must be played at the University. As such, no Houston Dynamo games were included in the fiscal year 2011 budget.</p> <p>Actual fiscal year 2011 fundraising, marketing and promotions expenses were lower by \$125 thousand, or 17%, as compared to budgeted fiscal year 2011 fundraising, marketing, and promotion expenses due to an anticipated Heisman campaign not being needed due to injuries to key players.</p> <p>Actual fiscal year 2011 direct facilities, maintenance expense was higher by \$1.4 million and 44%, as compared to budgeted fiscal year 2011 direct facilities, maintenance expense primarily due to unbudgeted expenses incurred in hosting Houston Dynamo games at Robertson Stadium of \$0.9 million. As noted above, expenses from hosting Houston Dynamo games are not included in the budgeting process because of uncertainty in the number of games the team will play at Robertson Stadium. As such, no Houston Dynamo games were included in the fiscal year 2011</p>

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues
and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
		budget. There was also a \$0.2 million increase in the facilities contract with the University as the original facilities contract had expired. The remaining \$0.3 million was related to normal upkeep of the athletic facilities which was higher than originally budgeted.
4. We will obtain a detailed listing of all operating revenue receipts (deposits of cash and cash equivalent transaction items) for the 2011 fiscal year and agree the detailed listing to each operating revenue category on the statement. From the detailed listing, we will select a sample of 15 transaction items from each of the following accounts: ticket sales; NCAA/conference distributions including all tournament revenue; program sales, concessions, novelty sales, and parking; royalties, licensing, advertising, and sponsorships; endowment and investment income; and other revenues (gifts or contributions will be tested separately). Each transaction item will be agreed to the corresponding validated deposit slip, bank statement, or credit card company statement as well as the source documents from the respective Athletic Departments.	No	<p>Except for the transaction described below, no exceptions were noted as a result of applying this procedure.</p> <p>One program sale, concession, novelty sale, and parking item and one other revenue item selected for testing have not been collected as of the date of this report.</p> <p>After review of the limited amount of account activity for NCAA/conference distributions, KPMG agreed with management to select five transactions for testing that accounted for 86% of the total NCAA/conference distributions for fiscal year 2011. No exceptions were noted as a result of applying this procedure.</p>
5. With respect to athletic ticket sales revenue, we will obtain an understanding of internal controls	No	We obtained an understanding of the internal controls over the ticket revenue account reconciliations and tested the accuracy of the

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues
and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
<p>over the ticket revenue account reconciliations to ensure adequacy of controls. We will test the accuracy of the reconciliation between the ticket processing system and the general ledger. We will also compare tickets sold during the reporting period, complimentary tickets provided during the reporting period, and unsold tickets to the related revenue reported in the Statement and the related attendance figures.</p>		<p>controls for 15 reconciliations.</p>
<p>6. With respect to student fees revenue, we will obtain an understanding of the University's IAD methodology for allocating student fees to the intercollegiate athletics programs through inquiry of IAD personnel. We will compare and agree student fees reported by the University IAD in the Statement at August 31, 2011 to fall 2010 and spring 2011 student enrollments, during the same reporting period. As agreed, for variances greater than 5% we will obtain explanations from University IAD management regarding the reasons for the variations.</p>	<p>No</p>	<p>In fiscal year 2011, the University allocated 35% of total student service fees, after a deduction of \$21.50 per student for Health Center fees and adjustments for bad debt charges, remissions, and exemptions, less an allocation of \$45,000 from the Athletics Department based on the recommendation of the University Student Fees Advisory Committee. The aforementioned \$45,000 allocation from the Athletics Department to the Department of Campus Recreation was mandated by the University Student Fees Advisory Committee for fiscal year 2010. We applied these procedures and noted no exceptions or variances greater than 5%.</p>

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues
and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
<p>7. With respect to game guarantees revenue, we will select a sample from the subledger detail consisting of all contractual agreements greater than \$50,000 pertaining to revenues derived from guaranteed contests during the reporting period and compare and agree each selection to the check copy and contract agreement with the opponent university. We will compare and agree the total of the subledger detail to the general ledger and the Statement for 2011.</p>	<p>No</p>	<p>We noted three contractual agreements greater than \$50,000. No exceptions were noted as a result of applying this procedure.</p>
<p>8. With respect to contributions revenue, we will select a sample from the subledger detail including all receipts greater than \$100,000 or 10% or more of total contributions during the reporting period and compare and agree each selection to corresponding check copy and donor letter of intent. We will compare and agree the total of the subledger detail to the general ledger and the Statement for 2011. For contributions greater than 10% or more of total contributions received during the reporting period, we will review the footnotes to the Statements noting whether the source from which such funds were received has been properly disclosed.</p>	<p>No</p>	<p>We noted no contributions greater than \$100,000 or greater than 10% or more of total contributions during the reporting period. No exceptions were noted as a result of applying this procedure.</p>

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues
and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
9. With respect to third-party support revenue, we will perform the following tests on all items greater than \$50,000 or 10% of the respective line item. We will compare amounts per subledger detail to third-party support items to supporting documentation (such as Internal Revenue Service (IRS) filings, canceled checks, validated deposit slips, etc.). We will also agree the total of third-party support revenue on the subledger detail to the Statement for 2011.	No	Based upon discussion with the IAD and inspection of the Statement, there was no compensation and benefits provided by external third-party sources during 2011. As such, these procedures were not applicable.
10. With respect to direct state or other governmental support revenue, direct institutional support revenue, and indirect facilities and administrative support revenue, we will compare the amounts reported by the University IAD during the reporting period in the Statement with the University authorizations and/or budget resolutions.	No	Based upon discussion with the IAD and inspection of the Statement, there was no direct state or other governmental support received during 2011. We compared the direct institutional support revenue to University authorizations, noting no exceptions. We also noted that the IAD makes fund transfers to the University to cover expenses for the estimated value of indirect facilities and administrative support received from the University. The IAD records these charges as other operating expenses since those charges for facilities and support are paid for and are not considered in-kind contributions from the University. As such, these procedures were not applicable for direct state or other governmental support, and indirect facilities and administrative support revenue.
11. With respect to NCAA/Conference revenue (conference distributions including all tournament revenues), we will compare NCAA/Conference	No	No exceptions were noted as a result of applying this procedure.

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues
and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
distributions as reflected on the August 31, 2011 Statement to the amount recorded in the general ledger. We will obtain and read three agreements related to the University's participation in tournaments during 2011 to gain an understanding of relevant terms and conditions.		
12. With respect to broadcast television, radio, and internet rights revenue, we will select a sample from the detail general ledger consisting of individual amounts received greater than \$35,000 or 5% of total revenue reported for this line item on the Statement and obtain and inspect agreements related to the University's participation in revenues from these sources to gain an understanding of the relevant terms and conditions. We will compare and agree the related revenues per the check copies or agreements to the amounts reported within the Statement.	No	Based upon discussion with the IAD and inspection of the Statement, there was no revenue from broadcast television, radio and internet rights reported during fiscal year 2011. As such, these procedures were not applicable.
13. We will obtain and inspect three agreements related to the institution's participation in revenues from royalties, advertisements, and sponsorships during the reporting period to gain an understanding of the relevant terms and conditions. We will compare amounts reported in the	No	After review of the limited amount of account activity, KPMG agreed with management to select two agreements related to the institution's participation in revenues from royalties, advertisements, and sponsorship which accounted for 79% of total revenues from royalties. No exceptions were noted as a result of applying this

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues
and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
fiscal year 2011 Statement to the general ledger.		procedure.
14. The Business Director has advised us that sports camps are the responsibilities of the head coaches as defined in their respective employment contracts and that the funds received from sports camps less related operating expenses are paid to the coaches. As such, sports camp revenues are not included in the attached Statement and no procedures specific to sports camp revenues will be performed.	No	Not applicable.
15. With respect to endowment income, we will obtain and inspect new 2011 endowment agreements to gain an understanding of the relevant terms and conditions. We will compare and agree the classification and use (e.g., unrestricted or restricted) of endowment income reported in the Statement during the reporting period to the uses of income defined within the related endowment agreement. We will agree the totals reported within the Statement to corroborative supporting documentation from the University's management.	No	We noted three new endowment agreements during fiscal year 2011. No exceptions were noted as a result of applying this procedure.
16. We will obtain the 2011 expense journal detail of all IAD expenditure disbursements for 2011 and agree the	Yes	Except as noted below, no exceptions were noted as a result of applying this procedure.

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
<p>detailed listing to each operating expense category on the Statement. From the detailed listing we will select a sample of 15 athletic department disbursements (transaction items) from each of the following accounts: recruiting, team travel, equipment, uniforms, and supplies; game expense; fundraising, marketing, and promotion; direct facilities, maintenance and rental; medical expenses and medical insurance; membership and dues; other operating expenses and transfers to the institution. Each transaction item will be compared and agreed to the corresponding invoices, disbursement requests, and check copies/ACH register, and agreed to the payee and amount disbursed.</p>		<p>From the 15 transactions selected from recruiting expense, one transaction for \$518 was incorrectly classified as "Nonprogram Specific" but should have been classified as "Other Sports." Two further transactions for \$22,970 and \$7,017 were incorrectly charged to recruiting expense and should have been classified as team travel expense.</p> <p>From the 15 transactions selected from team travel expenses, one transaction for \$430 should have been classified as recruiting expense.</p> <p>From the 15 transactions selected for equipment, uniforms, and supplies expense, one transaction for \$9,343 was incurred and invoiced in fiscal year 2010, but was not recorded until it was paid in September 2010 (fiscal year 2011).</p> <p>From the 15 transactions selected for fundraising, marketing, and promotion expense, one contract payment for \$48,600 was expensed at the beginning of the three-year contract in fiscal year 2011, whereas only \$16,200 should be reflected in fiscal year 2011.</p> <p>From the 15 transactions selected for direct facilities, maintenance, and rental expenses, two transactions for \$4,850 and \$2,584 were incorrectly recorded in fiscal year 2011 as they both relate to expenses incurred in fiscal year 2010. Additionally, one transaction for \$5,110 was incorrectly classified as direct facilities, maintenance, and rental expense instead of other expenses. Furthermore, one transaction for \$121,793 that represents a departmental billing was incorrectly calculated based on a June schedule rather than the July schedule resulting in an overstatement of</p>

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues
and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
		<p>\$4,303. Also, one transaction improperly excluded the May 2011 distribution cost of \$323.</p> <p>From the 15 transactions selected for membership dues, one transaction for \$2,500 was incorrectly classified in membership dues expense instead of other operating expense.</p> <p>From the 15 transactions selected for other operating expenses, two transactions for \$4,425 and \$4,125 were incorrectly recorded in fiscal year 2011 as the expense was incurred in fiscal year 2010. Additionally, one transaction for \$4,290 was incorrectly classified as other operating expenses instead of game expense.</p> <p>From the 15 transactions selected for game expenses, three transactions selected related to expense for security allocated from another department and, as such, we did not agree payment to bank statements and check registers. Further, from the 15 transactions selected for medical and medical insurance expenses, three transactions selected related to expense for physician fees and pharmacy costs that were allocated from another departments and, as such, we did not agree payment to bank statements and check registers.</p> <p>Per discussion with IAD, there were no transfer to the institution.</p>

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues
and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
17. With respect to athletic student aid (financial aid) expenditures, we will select a sample of 15 athletes receiving athletic awards from a detail provided by the Athletic Financial Aid department. We will compare the financial aid award per the aid award letter to the student's account detail.	Yes	Except as noted below, no exceptions were noted as a result of applying this procedure. From the 15 transactions selected for athletic student aid, a rental payment made to an apartment complex on behalf of one student exceeded the amount that he was entitled to receive per his financial award letter by \$200.
18. With respect to game guarantee expenditures, we will obtain the schedule of guaranteed fees paid to visiting teams and agree the total guarantee expenditure to Statement for the year ended August 31, 2011. We will select a sample of 10 guaranteed payments and compare the expenditure per the schedule to the amount in the governing contract and to the general ledger. We will also compare the total game guarantee expenditure from the Statement for the year ended August 31, 2011 to the general ledger.	No	We obtained the schedule of guaranteed fees paid to visiting teams during 2011 and agreed said schedule to the Statement. We obtained the corresponding contractual agreement for each selection and noted no exceptions related to this procedure.

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues
and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
<p>19. With respect to coaching salaries, benefits, and bonuses paid by the University and related entities expenses, we will obtain a listing of coaches employed by the University and related entities during the reporting period and select a sample of coaches' compensation to test (see sample parameters below). We will compare and agree the financial terms and conditions per the coaches' contracts to the related amounts reported by the IAD in the Statement for 2011 and compare and ensure such information is consistent with W-2s and Form 1099s for each selection. (Sample parameters: Football – head coach and two other coaches, Men's and Women's Basketball – the head coach and one other coach, All Other Sports – one coach).</p>	<p>No</p>	<p>We noted that W-2s were not available for the latter portion of the fiscal year and we agreed the amounts reported to paycheck stubs. No exceptions were noted as a result of applying this procedure.</p>
<p>20. The Business Director advised us that there was no compensation or benefits paid by third parties to coaching personnel. As such, no procedure over other compensation and benefits paid for coaching by a third party will be performed.</p>	<p>No</p>	<p>Not applicable.</p>

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues
and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
21. With respect to support staff/administrative salaries, benefits, and bonuses paid by the University and related entities expenditures, we will obtain a listing of IAD support staff/administrative personnel employed by the University and related entities during the reporting period and select a sample of five support staff/administrative personnel. We will compare the compensation and benefits amounts reflected in 2011 Statement for these individuals to their W-2s or other relevant supporting documentation for each selection.	Yes	Except as noted below, no exceptions were noted as a result of applying this procedure. From the five transactions selected for staff/administrative salaries expense, \$1,500 of the salary expense for one employee related to fiscal year 2012 but was incorrectly included in fiscal year 2011.
22. The Business Director advised us that there was no compensation or benefits paid by third parties to support staff/administrative personnel. As such, no procedure over other compensation and benefits paid for support/administrative staff by a third party will be performed.	No	Not applicable.
23. With respect to severance payment expenditures, we will obtain a report detailing all employees receiving severance payments from the University during the reporting period and compare and agree a sample of five severance payments to the related termination letter or employment contract.	No	No exceptions were noted as a result of applying this procedure.

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues
and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
24. With respect to recruiting and team travel expenditures, we will obtain and document our understanding of the University's IAD recruiting expense policy and compare to institutional and NCAA guidelines/policies, noting any differences to Universitywide policy as compared with those in the NCAA By-law, Article 13 – Recruiting and Article 16 – Awards, Benefits, and Expenses for Enrolled Student-Athletes.	No	We compared the policies, noting that the IAD policies were not all-inclusive, but highlighted certain items from, and in some cases referred to, the NCAA guidelines/policies. Based upon the comparison, the IAD policies did not conflict with the NCAA guidelines/policies.
25. The Business Director has advised us that sports camps are the responsibilities of the head coaches as defined in their respective employment contracts and that the funds received from sports camps less related operating expenses are paid to the coaches. As such, sports camp expenses are not included in the attached Statement and no procedures specific to sports camp expenses will be performed.	No	Not applicable.
26. The Business Director has advised us that the University does not fund spirit groups. As such, no procedures specific to spirit groups expenses will be performed.	No	Not applicable.
27. With respect to indirect facilities and administrative support expenditures,	No	Based on our review of the University's Auxiliary Administrative Charge Allocation policy, it was

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures related to the Statement of Revenues and Expenses</i>		
<p>we will obtain an understanding of the University's IAD methodology for allocating indirect facilities and administrative support to the intercollegiate athletics programs through inquiry of IAD personnel. We will sum amounts reported for indirect facilities and administrative support expenditures and compare/agree to the sum of amounts reported for indirect facilities and administrative support revenue as reported by the University IAD in the Statement at August 31, 2011. As agreed, for variances greater than 10% we will obtain explanations from University IAD management regarding the reasons for the variations.</p>		<p>noted that the University charges the Athletics Department a calculated percentage of qualifying athletic expenses, which generally include all athletic expenses with the exception of scholarships, financial aid, waivers, administrative expenses, mandatory transfers-out, and accruals. The fee is a fixed percentage of total monthly expenditures in the respective cost center, and the percentage is set by the Budget Office. The percentage used for fiscal year 2011 was 6%. For the purpose of applying the indirect cost rate, qualifying expenses are further reduced by certain special revenues such as private gift revenues. The University uses the indirect cost charges to recover relevant costs to satisfy the restrictions imposed by State legislation on the use of appropriations for auxiliary funds' activities and as the indirect costs are charged by the University, they are classified in other operating expense.</p> <p>The calculation of administrative charges excluded \$55,000 of expenses resulting in an understatement in the calculation of \$3,300.</p>

UNIVERSITY OF HOUSTON

Results of Agreed-Upon Procedures Performed on the Statement of Revenues
and Expenses of the Athletics Department

Year ended August 31, 2011

Procedures Agreed Upon	Reported Exceptions?	Results and Findings
<i>Procedures and Supplemental Procedures Related to Affiliated and Outside Organizations</i>		
28. The Business Director has advised us that an outside organization, Houston Athletics Foundation, makes direct financial contributions to the Athletics Department and no expenses are paid for on behalf of the University IAD by affiliated and outside organizations not under the University's accounting control. As such, no procedures or supplemental procedures specific to affiliated and outside organizations will be performed.	No	Not applicable.

UNIVERSITY OF HOUSTON

Statement of Revenues and Expenses of the Intercollegiate Athletics Department

Year ended August 31, 2011

(Unaudited)

	<u>Football</u>	<u>Men's basketball</u>	<u>Women's basketball</u>	<u>Other sports</u>	<u>Non-Program specific</u>	<u>Grand total</u>
Revenues:						
Contributions	\$ 238,486	1,450	13,850	636,657	2,357,607	3,248,050
Direct institutional support	2,494,916	1,116,754	1,142,639	5,038,068	5,989,993	15,782,370
Endowment and investment income	14,040	5,626	—	140,596	26,349	186,611
Guarantees	561,856	—	—	10,200	—	572,056
NCAA/conference distributions	1,172,910	697,384	20,000	6,250	962,248	2,858,792
Program sales, concessions, novelty sales and parking	389,848	22,859	3,037	38,453	750,483	1,204,680
Royalty, licensing, advertisements and sponsorships	—	—	—	22,500	1,471,696	1,494,196
Student services fees	—	—	—	—	4,362,707	4,362,707
Ticket sales	2,766,633	247,943	19,859	237,958	113,649	3,386,042
Other	3,835	7,933	—	—	1,506,761	1,518,529
Total operating revenues	7,642,524	2,099,949	1,199,385	6,130,682	17,541,493	34,614,033
Expenses:						
Athletics student aid	1,709,121	38,638	(302)	477,407	2,318,254	4,543,118
Direct Facilities, maintenance and rental	977	—	—	—	4,683,863	4,684,840
Equipment, uniforms and supplies	269,930	314	47,477	464,849	55,870	838,440
Fundraising, marketing and promotion	59,445	—	—	213,658	344,204	617,307
Game expenses	449,319	22,951	54,544	374,921	686,468	1,588,203
Guarantees	485,000	260,500	1,500	20,232	—	767,232
Medical expenses and medical insurance	—	—	—	6,169	500,184	506,353
Memberships and dues	1,770	350	825	3,567	305,859	312,371
Recruiting	158,605	85,687	40,772	210,153	4,017	499,234
Coaching salaries, benefits, and bonuses paid by the institution	2,591,710	956,474	522,658	1,986,506	416,963	6,474,311
Support staff/administrative salaries, benefits, and bonuses paid by the institution	333,205	330,257	152,472	263,844	5,038,217	6,117,995
Severance payments	17,485	—	5,227	15,091	30,942	68,745
Team travel	594,537	218,348	229,178	1,022,833	8,452	2,073,348
Other operating expenses	865,297	162,282	144,498	878,526	2,308,717	4,359,320
Total operating expenses	7,536,401	2,075,801	1,198,849	5,937,756	16,702,010	33,450,817
Excess of revenues over expenses	\$ 106,123	24,148	536	192,926	839,483	1,163,216

See accompanying independent accountants' report on applying of agreed-upon procedures.

02/15/12
AUDIT - D-76

UNIVERSITY OF HOUSTON
Intercollegiate Athletics Department
Notes to Statement of Revenues and Expenses
Year ended August 31, 2011

(1) Organization and Basis for Presentation

The University of Houston Intercollegiate Athletic Department (Athletic Department) is a department of the University of Houston (University) and therefore is under the control of the Board of Regents of the University, which administers intercollegiate athletic programs.

The Statement of Revenues and Expenses has been prepared in conformance with accounting principles generally accepted in the United States of America, and by using the basic accounting and revenue recognition principles set forth in the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide entitled "State and Local Governments" and in the National Association of College and University Business Officers (NACUBO) publication entitled "College and University Business Administration."

(2) Significant Accounting Policies

Buildings, facilities, and equipment represent capital assets acquired primarily for the operation of the Athletic Department. Title to capital assets utilized by the Athletic Department rests with the State of Texas in the name of the University and, therefore, such assets can be transferred to or from the Athletic Department at the discretion of the University. The threshold for capitalization of equipment is \$5,000 and over. Capital assets are stated at cost at the date of acquisition, or fair value at the date of donation. Depreciation is recorded on a straight-line basis over the useful lives of the assets. Useful lives are established by a uniform classification system maintained by the State of Texas and are measured from the date of acquisition.

(3) Contributions

Monetary contributions have been made by various individuals to the Athletic Department. Contributions during the year ended August 31, 2011 totaled \$3,248,050, and have been recorded in the Statement of Revenues and Expenses as contributions. There were no individual contributions of money that constituted 10% or more of all contributions received.

(4) Revenue Bonds

The Athletic Department transferred \$1,800,244 to the University as principal and interest payments in relation to Consolidated Revenue Refunding Bonds, Series 2002-B (the revenue bonds) during the year ended August 31, 2011. These payments included interest expense of \$585,244. The payments have been recorded in the Statement of Revenues and Expenses as direct facilities, maintenance, and rental.

UNIVERSITY OF HOUSTON
Intercollegiate Athletic Department
Notes to Statement of Revenues and Expenses
Year ended August 31, 2011

Future debt service payments for the revenue bonds are due as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year:			
2012	\$ 1,285,000	519,619	1,804,619
2013	1,345,000	450,581	1,795,581
2014	1,420,000	378,000	1,798,000
2015	1,500,000	301,350	1,801,350
2016	1,580,000	220,500	1,800,500
Thereafter	<u>3,410,000</u>	<u>181,388</u>	<u>3,591,388</u>
Total	<u>\$ 10,540,000</u>	<u>2,051,438</u>	<u>12,591,438</u>

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Audit and Compliance

ITEM: Report on External Audit Report – Texas Comptroller of Public Accounts Post Payment Audit of the University of Houston System

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Audit & Compliance Committee Charter and Checklist, item number 13, requires the Committee to review any significant findings and recommendations of the State Auditor and any employed public accounting firm or outside expertise.

The Texas Comptroller's Office audited a sample of payroll, purchase, travel, and grant transactions for the University of Houston System during the period beginning June 1, 2010, through May 31, 2011. The purpose of the audit was to determine whether the System's expenditures complied with certain state laws and rules concerning expenditures and with the processing requirements of the Uniform Statewide Accounting System. The only exception noted was that seven payroll transactions were missing documentation which were subsequently located and provided to the auditor.

The key points from the report include the following:

- Transmittal letter to Chancellor Khator (page 2)
- Executive Summary (page 4)
- Detailed Findings (page 6)
- Appendices (page 9)

SUPPORTING

DOCUMENTATION: External Audit Report – Texas Comptroller of Public Accounts Post Payment Audit of the University of Houston System (excerpts)

FISCAL NOTE: None

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System

CHIEF AUDIT EXECUTIVE

Don Guyton

Don Guyton

DATE

1/25/12

CHANCELLOR

Renu Khator

Renu Khator

DATE

1/31/12

02/15/12

AUDIT – E-79

Audit Report # 783-11-01

Post Payment Audit of the University of Houston System

**Fiscal Management Division
Expenditure Audit Section**

December 20, 2011



**Susan Combs
Texas Comptroller of Public Accounts**

Auditor: Tammy Koenings, CPA

02/15/12

AUDIT – E-80

S U S A N

C O M B S

TEXAS COMPTROLLER *of* PUBLIC ACCOUNTS

P.O. Box 13528 • AUSTIN, TX 78711-3528



December 20, 2011

Renu Khator, Ph.D.
Chancellor
University of Houston System
5000 Gulf Freeway, Building 2, Room 214
Houston, Texas 77204-0911

Dear Dr. Khator:

We have completed a post-payment audit of certain payroll, purchase, and travel transactions of the University of Houston System (System). We would like to thank your staff. We appreciate their responsiveness and cooperation in assisting us with this audit, particularly Dr. Carlucci, and Mike Glisson. A draft of this audit report was sent to Dr. Carl Carlucci, Executive Vice Chancellor, on November 8, 2011. Responses to the draft are included within this final report.

Our purpose was to determine whether the System's expenditures complied with certain state laws and rules concerning expenditures and with the processing requirements of the Uniform Statewide Accounting System (USAS). The System is responsible for ensuring that its staff is knowledgeable in these areas.

The System must submit to the Texas Comptroller of Public Accounts (Comptroller's Office) a corrective action plan that addresses the instances of payment and documentation errors detailed within this report. The plan must provide for appropriate improvements in the control structure related to the System's payment process and show expected dates of implementation. The corrective action plan must be completed and signed by management and the System's internal auditor. An electronic copy of the corrective action plan is available upon request. Our Office must receive the completed plan by Jan. 20, 2012.

We intend for this report to be used by the System's management and certain state officials and agencies as listed in Tex. Gov't Code Ann. § 403.071 (Vernon Supp. 2011). However, the audit report is a public record, and its distribution is not limited.

We noted other matters involving the processing of expenditures by the System that we have communicated in an email to Dr. Carlucci dated December 20, 2011.

02/15/12

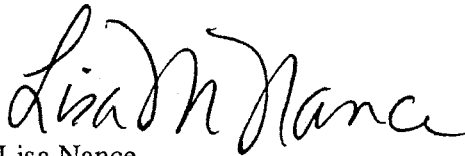
Dr. Renu Khator
December 20, 2011
Page Two

We would like to request input from you or your designee on the quality of the audit process and the service provided by the audit staff. Please use the following website to provide feedback on the post-payment audit process: <https://fm.x.cpa.state.tx.us/fm/survey/audit/> or if you prefer, a hard copy has been included for your convenience. We greatly appreciate your feedback.

The System may inquire about and register for training related to these findings through the Fiscal Management Training Center website at <https://fm.x.cpa.state.tx.us/fmx/training/index.php>.

Thank you for your cooperation. If we can be of any further assistance, please contact Tammy Koenings at tammy.koenings@cpa.state.tx.us or 512-475-0628.

Sincerely,



Lisa Nance
Manager
Statewide Fiscal Services

Enclosure

cc: Nelda Luce Blair, Chairman, Board of Regents, University of Houston System
Dr. Carl Carlucci, Executive Vice Chancellor, University of Houston System
Mike Glisson, Controller, University of Houston System
Don Guyton, Chief Audit Executive, University of Houston System
Tammy Koenings, Auditor, Statewide Fiscal Services, Texas Comptroller of Public
Accounts

02/15/12

	WWW.WINDOW.STATE.TX.US	512-463-4965 • TEL-FREE: 1-800-531-5441 • FAX: 512-463-4965
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Audit Scope

We audited a stratified random sample of the System's payroll transactions that processed through USAS during the period beginning June 1, 2010, through May 31, 2011. We audited all of the purchase, travel, and grant transactions in the population with the exception of one purchase document relating to disaster recovery reimbursements. Due to the volume of internal transactions relating to this one USAS document, a limited review was conducted. The appendices to this report include schedules of the errors identified. Each transaction in the sample was reviewed to determine compliance with applicable state laws. The report includes a projection of the errors to estimate the amount of improperly paid transactions in the population.

The audit provides a reasonable basis for the findings set forth in the attached report. The System should implement the recommendations listed in the Detailed Findings of this report. It is the System's responsibility to seek refunds for all overpayments, unless it determines it is not cost effective to do so. If necessary, the Texas Comptroller of Public Accounts (Comptroller's office) may take the actions set forth in Tex. Gov't Code Ann. § 403.071(h) (Vernon Supp. 2011) to ensure that the System's documents comply in the future. The System must ensure that the findings discussed in this report are resolved.

The law requires the Comptroller's office to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

Payroll Transactions and Deductions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), the *Texas Payroll/Personnel Resource (Payroll Resource)*¹, and other pertinent statutes. A limited sample of voluntary contributions was also audited.

The audit identified:

- The audit identified seven payroll transactions were missing documentation.

Purchase Transactions

Purchase transactions were audited for compliance with the GAA, *eXpendit*, the *State of Texas Procurement Manual (Procurement Manual)*, and other pertinent statutes.

- No errors were identified.

Travel Transactions

Travel transactions were audited for compliance with the GAA, *Textravel*, and other pertinent statutes.

- No errors were identified.

¹ Effective Oct. 27, 2011, *Texas Payroll/Personnel Resource* replaces the *State of Texas Payroll Policies and Procedures Guide*. The *Texas Payroll/Personnel Resource* guidelines are located on the FMX website: <https://fmx.cpa.state.tx.us/fm/pubs/paypol/index.php>. Portions of the *State of Texas Payroll Policies and Procedures Guide* are still in effect until further notice.

02/15/12

AUDIT – E-83

EXECUTIVE SUMMARY

Grant Transactions

The audit included a limited review of the System's transactions relating to grant payments. This review consisted of verifying that the payments did not exceed the authorized amounts. The review of these payments did not include an investigation of the System's procedures for awarding the grants or monitoring payments made to grantees; therefore, we are not offering an opinion on those procedures.

- No errors were identified.

Fixed Assets

The audit included a limited number of fixed assets acquired by expenditures during our audit period to test for accurate reporting in State Property Accounting system (SPA) and to verify the existence of the assets.

- All assets tested were in their intended location and properly recorded in SPA.

Prior Post-Payment Audit and Current Audit Recurring Errors

We concluded a prior post-payment audit of the System's payroll, purchase, and travel transactions on Oct. 31, 2006. During the current audit, there were no recurring errors identified.

Contact

Tammy Koenings, CPA, CTP
512-475-0628

Contributing Auditor

Derik Montique, MBA, CTP

02/15/12
AUDIT – E-84

DETAILED FINDINGS

02/15/12
AUDIT – E-85

DETAILED FINDINGS – PAYROLL

MISSING PAYROLL DOCUMENTATION

Finding

In our review of payroll transactions, we identified seven payroll transactions that were missing the documentation needed to determine whether the payments to the employees were made correctly. We did not obtain prior service verifications for five employees. The employees' resume and employment application listed the prior state service; however, the System inadvertently overlooked the data and did not verify the state service.

As a result of the audit, the System has requested the verifications from the prior employing agencies. The System noted that it is still in the process of trying to obtain the verifications. The System should continue to pursue obtaining the verifications. If any of the employees are eligible for additional lifetime service credit, the System must compensate the employees.

We also identified two personnel files that were missing a payroll action request (PAR) and one of these two files did not have the correct documentation to support the payroll information.

Agencies are required to maintain specific documentation to support the legality, propriety, and fiscal responsibility of each payment made out of the agency's funds. The Comptroller may require the documentation to be made available during a post-payment audit, a pre-payment audit, or at any other time. *See Payroll Guide*, pp 1.38-1.39, 3.43-3.44.

We provided the System with the schedule documenting the exceptions at the exit meeting. It is not included with this report due to confidentiality issues.

Recommendation/Requirement

We recommend that the System verify all personnel files to ensure that properly completed prior state service verification forms are obtained for its employees. In addition, the System should review each employee's job application and/or resume for prior state service of all new employees. We also recommend that the System obtain any missing documentation.

The System should consider recovering any overpayments of longevity pay and accrual benefits from the employees in accordance with *Chapter 666, Texas Government Code*. In addition, the System must compensate any employees that were underpaid longevity pay in accordance with *Chapter 666, Texas Government Code*.

Agency Response

The UH System Human Resources Department will implement procedures to review and verify State of Texas service indicated on resumes and job applications of all new employees. These procedures will be implemented no later than January 31, 2012.

DETAILED FINDINGS – PAYROLL

Note that the seven pieces of missing documentation identified during the audit were later found by UH System and presented to the Comptroller's Office. After reviewing the documentation, UH System found that none of the affected employees were incorrectly compensated for longevity or accrual benefits.

~~02/13/12~~

AUDIT – E-87

APPENDICES

02/15/12
AUDIT – E-88

Summary of Sample Payment Errors Detected

Audit Period: June 1, 2010 to May 31, 2011

GROUP 1 (USAS) - PAYROLL TRANSACTIONS

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)
A	\$0.00	\$1,950.00	100	\$0.00	\$21,743.70	.000000	\$1,332,864.90	\$0.00
B	\$1,950.01	\$31,868.00	100	\$0.00	\$495,292.43	.000000	\$6,371,233.50	\$0.00
C	\$31,868.01	\$999,999,999.00	5	\$0.00	\$415,972.46	.000000	\$415,972.46	\$0.00
(F)						(G)	(H)	
\$933,008.59						.000000	\$8,120,070.86	\$0.00

GROUP 2 (USAS) - PURCHASE TRANSACTIONS - Limited Review

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)
A	\$0.00	\$999,999,999.99	190	\$0.00	\$338,663.33	.000000	\$338,663.33	\$0.00
Limited Review of Document # 90042798			75	\$0.00	\$2,120,039.53	.000000	\$7,337,486.71	\$0.00
(F)						(G)	(H)	
\$2,458,702.86						.000000	\$7,676,150.04	\$0.00

GROUP 3 (USAS) - TRAVEL TRANSACTIONS

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)
A	\$0.00	\$999,999,999.99	6	\$0.00	\$1,513.29	.000000	\$1,513.29	\$0.00
(F)						(G)	(H)	
\$1,513.29						.000000	\$1,513.29	\$0.00

GROUP 4 (USAS) - GRANT TRANSACTIONS

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)
A	\$0.00	\$999,999,999.99	2	\$0.00	\$1,334,972.00	.000000	\$1,334,972.00	\$0.00
(F)						(G)	(H)	
\$1,334,972.00						.000000	\$1,334,972.00	\$0.00

Legend

Sample Error Rate (C) = (A) ÷ (B)
Projected Errors (E) = (C) X (D)
Group Error Rate (F) = (H) ÷ (G)
Group Population Base (G) = sum of Population Bases (D)
Group Projected Errors (H) = sum of Projected Errors (E)
Total Population Base (I) = sum of Group Population Bases (G)
Total Projected Errors (J) = sum of Group Projected Errors (H)

Note:

All dollar amounts rounded to the second decimal place.
 All error rates rounded to the sixth decimal place.

TOTAL PROJECTION

Total Population Base (I)	Total Projected Errors (J)
\$17,132,706.19	\$0.00

A state agency may request the Comptroller of Public Accounts (Comptroller's office) to pay a claim against the agency only by submitting the appropriate payment voucher to the Comptroller's office. Tex. Gov't Code Ann. §§ 404.046, 404.069 (Vernon 2005), §§ 2103.003, 2103.0035, 2103.004 (Vernon 2008). State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher. Tex. Gov't Code Ann. § 403.071(a) (Vernon Supp. 2011), § 403.078 (Vernon 2005) § 2103.004(a)(3) (Vernon 2008).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher. Tex. Gov't Code Ann. § 403.071(g)-(h) (Vernon Supp. 2011). In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis. Tex. Gov't Code Ann. §§ 403.011(a)(13), 403.079 (Vernon 2005), Tex. Gov't Code Ann. § 2155.324 (Vernon 2008).

The Expenditure Audit section of the Comptroller's office Statewide Fiscal Services conducts these audits.

Audit objectives

The primary objectives of a post-payment audit are to:

- Ensure that payments are documented so that a proper audit can be conducted.
- Ensure that payment vouchers are processed according to the requirements of the uniform statewide accounting and payroll systems.
- Verify that payments are made in accordance with certain applicable state laws.
- Verify that assets are in their intended location and are properly recorded in the State Property Accounting (SPA) system.
- Verify that the voucher signature cards and systems security during the audit period were consistent with applicable laws, rules, and other requirements.

Methodology

The expenditure audit section uses generally recognized sampling techniques to conduct a post-payment audit. The computer audit menu system software is used to generate a stratified random sample of payment vouchers for the audit, with a confidence level of 95 percent. The vouchers are audited in detail, and the results of the audit are projected to estimate the amount of claims that were unsubstantiated or improperly paid. Limited samples are also utilized where applicable.

Field Work

Each auditor in the expenditure audit section is required to approach the field work phase of each audit with an appropriate level of professional skepticism based upon the results of the initial planning procedures. If an auditor suspects during an audit that fraud, defalcations, or intentional misstatement of the facts has occurred, then the auditor will meet with his or her supervisor or the Statewide Fiscal Services manager, or both, to decide what course of action or additional procedures would be appropriate.

Reporting

Each auditor audits the payment vouchers included in a sample according to established policies and procedures. The audit findings are reported to the audited agency in the form of a report.

The audit report discloses the total dollar amount of any unsubstantiated payments or overpayments noted in the sample. In addition, the report shows the result of projecting those payments to the appropriate population. Finally, the report includes recommendations and requirements for the audited agency.

Each auditor discusses the management issues noted during the audit at the exit and communicates details of these issues to the chief fiscal officer.

02/15/12

AUDIT – E-90

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Audit and Compliance

ITEM: Report on Institutional Compliance Status Report for the Three Months Ended December 31, 2011

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Institutional Compliance Status Report summarizes the information provided by each institution for their respective compliance functions.

- Summary of Activities: risk assessment, audits, meetings, risk mitigation, and hot-line reports (page 1)
- University of Houston System: summary of October 19, 2011, meeting of Institutional Compliance Officers and changes in laws and regulations (pages 1-2)
- University of Houston: compliance activities of Finance Department, Environmental Health and Safety Department, Residential Life & Housing, Division of Research, and Information Technology Department (pages 2-6)
- University of Houston Clear Lake: summary of compliance meeting held on October 13, 2011 and December 8, 2011 (pages 6-7)
- University of Houston Downtown: summary of compliance meeting held on December 8, 2011, and Information Technology compliance activities (pages 7-8)
- University of Houston Victoria: summary of compliance meeting held October 26, 2011 (pages 8-9)

SUPPORTING

DOCUMENTATION: Institutional Compliance Status Report

FISCAL NOTE: None

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System

CHIEF AUDIT EXECUTIVE

Don Guyton

Don Guyton

1/25/12

DATE

CHANCELLOR

Renu Khator

Renu Khator

1/31/12

DATE

02/15/12

AUDIT – F-91

**UNIVERSITY OF HOUSTON SYSTEM
INSTITUTIONAL COMPLIANCE STATUS REPORT
For the three months ended December 31, 2011**

Institutional compliance activities at each university during the three months ended December 31, 2011, are as follows:

<u>Activity</u>	<u>UH/UHS</u>	<u>UHCL</u>	<u>UHD</u>	<u>UHV</u>
Risk Assessments Completed	0	0	0	0
Risk Assessments Updated	1	7	0	9
Compliance Audits Conducted	7	0	0	3
Compliance Committee Meetings Held	1	2	1	1
Risk Mitigation Implemented:				
Specific Control Activities (pol. & proc.)	13	1	1	20
New Training Program / Activities	18	5	2	32
Hot-line Reports:				
Number Received during last 3 months	10	1	0	2
Reports Resolved during last 3 months	4	2	2	2
Unresolved Reports as of Dec. 31, 2011	15	0	0	1

UHS:

- A system-wide meeting of the Institutional Compliance officers was held on October 19, 2011, to discuss institutional compliance activities. Included on the meeting agenda were the following:
 - Open points from previous meeting
 - Review of reports to be presented to the Audit and Compliance Committee on November 16, 2011
 - Presentation by Joe Mendez – Review of Education Cod Sec. 51.217 – Multihazard Emergency Operations Plan; Safety and Security Audit
 - Cooperative Problem Solving – Sharing of Ideas (discussion by all compliance officers of major concerns / accomplishments)
 - Presentation by Mary Cook – Business Affairs Summer Reading – Compliance and Ethics Web Page
 - Presentation by Mike Glisson – Annual Fraud Risk Surveys

- On November 16, 2011, Chancellor / President Khator sent an e-mail to the UHS community regarding the University’s zero tolerance for improper conduct and asking everyone to recommit ourselves to making sure that no acts of abuse, fraud, discrimination or retaliation are tolerated, in any way, within the University of Houston

System and all its institutions. The e-mail referred to the MySafeCampus program to report any of such activity.

- The following table reflects UHS Mandatory Training completion rates for FY 2011 and FY 2012:

University	FY 11	FY 12
UH Clear Lake Total	98.27%	96.5%
UH Downtown Total	97.05%	95.6%
UH Main and System Total	95.38%	94.4%
UH Victoria Total	100%	99.6%
Total (All Campuses)	96.03%	94.7%

- Percentages reflect number of individuals completing by the published deadline
 - Percentages reflect completion rates combined for the primary trainings and External Consulting
 - FY 2011 dates (Nov. 15 – Jan. 31 or 13 weeks including break) and FY 2012 dates (Oct. 3 – Dec. 2 or 8 weeks)
 - FY 2011 Mandatory Training consisted of Training Acknowledgement and External Consulting (non-test year)
- In December 2011, all UHS component Chief Accounting Officers, Chief Financial Officers, and Presidents signed a letter addressed to Regent Berry, Chair of the Audit and Compliance Committee, in which they certified that the FY2011 financial reports for their campus are true and correct to the best of their knowledge. Included in these letters is an acknowledgment that UHS management is responsible for implementing adequate internal controls to ensure that the financial reports are fairly stated and that management is not aware of any material error or fraudulent action that would cause these reports to be misstated. These letters will be presented to the Audit and Compliance Committee in February 2012.
 - Changes in laws and regulations:
S.B. 1414 modified the Texas Education Code to require operators for programs for minors held on campuses of institutions of higher education (e.g., athletic camps) to verify that employees who will be in contact with the campers have training in the recognition of victims of sexual abuse and child molestation. These changes were effective September 1, 2011.

UH:

Finance

In October 2011, 143 UH departments completed the annual Department Fraud Risk Survey, which consists of 97 questions related to the department’s implementation of internal controls during FY 2011. “Yes” answers indicate the control was in place, while “no” answers indicate the control was not in place and require an explanation for how the department will implement

the control. All surveys are signed by the unit administrator and unit head. This is the seventh year that UH departments have completed the survey, which was created as part of the UH fraud prevention program.

Purchasing

- Provided Purchasing Procedures training to C.T. Bauer College of Business: September 9, 2011
- Provided Purchasing Procedures training to personnel from the Office of the Chancellor and President: October 28, 2011
- Provided Purchasing Procedures training regarding the procurement of scientific equipment to David Eldridge - Director, Research Facilities: November 10, 2011

Public Safety

No update

Environmental Health and Safety

Training

General Laboratory Safety (2 Times)

Hazard Communication

Biological Safety

Bloodborne Pathogens

Safety Awareness Training (2 Times)

Asbestos - Instructor Led

Radioactive Material Safety

X-ray Safety

Laser Safety

Isoflurane Gas Safety Training

Chemical Standard Operating Procedures

Online Annual X-ray Safety Refresher

Online Annual Laser Safety Refresher

Online Bloodborne Pathogens Refresher

Online Hazardous Waste Procedures

Online Radioactive Material Refresher

New Programs/Activities

UH New Faculty Workshop - Division of Research

Regulatory Reports/Actions

Institutional Biosafety Committee Update to Office of Biotechnology Activities

Received no further action required letter from Texas Commission on Environmental Quality (TCEQ) concerning Freon release earlier in 2011

Regulatory Inspection by Texas Dept of State Health Services - UH X-ray Certificate of Registration

Residential Life & Housing:

Bacterial Meningitis

There has been a change in the Texas state law regarding Bacterial Meningitis vaccination. Previously **Texas House Bill 4189** specified that all first-time students and transfer students attending an institution of higher education in the state of Texas who plan to reside in an on-campus housing facility must show evidence of having received the Bacterial Meningitis vaccination or documentation of a valid exemption. Students must receive the vaccination at least ten (10) days prior to taking up residence in an on-campus housing facility.

- In the fourth quarter, Residential Life and Housing included a reminder note about the required vaccination and documentation with the room assignment emails for all incoming Spring 2012 semester residents.

The 82nd Texas Legislature, Regular Session, 2011, revised existing statutory requirements for higher education students related to vaccination against bacterial meningitis. Beginning January 2012, **Texas Senate Bill 1107 (S.B. 1107)** requires all entering students under the age of 30 to show evidence of an initial bacterial meningitis vaccine or a booster dose during the five-year period preceding, and at least 10 days prior to, the first day of the first semester in which the student initially enrolls at an institution. An entering student includes a first-time student of an institution of higher education or private or independent institution of higher education and includes a transfer student, or a student who previously attended an institution of higher education before January 1, 2012, and who is enrolling in the same or another institution of higher education following a break in enrollment of at least one fall or spring semester.

- The Office of Admissions within the Enrollment Services area has been designated to receive evidence of compliance with the bacterial meningitis vaccination requirement beginning with the Spring 2012 semester.

Division of Research

- Research Administration Certification Program (RACP):
 - October, 2011 Overview of Sponsored Projects, 36 staff
 - November, 2011 Proposal Submission, 36 staff
 - December, 2011 Award Acceptance and Project Set Up, 36 staff
- Pre-Award Training for Research Administration Management Portal (RAMP), 10 staff
- New Faculty Orientation for the Division of Research, 35 new faculty
- National Science Foundation Regional Conference, 6 faculty and staff.
- College Research Administrator's Meeting, 15 staff
- "The NSF Seminar Series on "Experiencing Ethics", **Dr. Alan Price** "ORI cases and How to Protect Yourself from Research Misconduct in Your Laboratory", 50 faculty and staff
- Assisted University of Houston-Downtown in their NCURA Peer Review meeting, 5 staff
- Hosted for UH administrators the NCURA Workshop entitled "Department Research Administration" 60 UH staff
- Produced November/December newsletter entitled "Research Update" that included compliance information for PIs, widely distributed to UH research community.

University Information Technology

Sensitive Data Protection

- Scanning of UH computers - Campus colleges and divisions worked diligently to complete identification of sensitive data on UH-owned machines using the Identity Finder application by December 31, 2011. Final results of the scans are still being compiled, and colleges and divisions are working to address remediation plans for data identified through the scans.
- Identity Finder Optical Character Recognition (OCR) module – UIT enhanced the scanning capabilities of the Identity Finder deployment through purchase of the OCR module which allows for scanning of images and PDF documents.
- New MAPP Education – UIT Security and college/division information security officers provided targeted training and special presentations on the new MAPP, 10.05.03 – Data Classification and Protection to campus faculty and staff. Education efforts will be ongoing.

TAC Compliance

- National CyberSecurity Awareness Month – During the month of October, UIT Security sponsored security awareness activities throughout the UH System. Security awareness items including tip sheets for faculty, staff and students were provided to all System campuses for distribution. At UH, a series of security workshops were held and presentations were made to various campus groups. Additionally, UIT Security sponsored training for UHS Information Security Officers leading to achievement of professional security certifications for 3 UH staff and several others who will be achieving certification soon.
- UHSecure Deployment – Wireless authentication configuration software was launched to assist users with connecting mobile devices to the new UHSecure wireless network.
- Update of UH IT SAM/MAPPs – The campus review process is continuing for updates to the Information Technology MAPPs and SAMs. Two MAPPs have been approved: 10.03.04 and 10.05.01. One MAPP is still in review: 10.03.01. UIT is working with Administration and Finance regarding updates to 10.03.05. Two SAMs are currently in revision: 7.A.02 and 7.A.04. 7.B.02 will be submitted for rescission. UIT is continuing to work with OGC regarding updates to 07.A.05.
- Texas DIR IRDR – The 2011 Information Resources Deployment Review (IRDR) was submitted for UH/UHS in December as required.

Red Flag Rule Notifications

- Employees and students receive an automated email notification when their email address, physical address, W-4 withholding, or direct deposit information is changed in the system. Between October 1 and December 30, 2011, University of Houston IT Security received 4 inquiries about automated email messages related to email and physical address changes, 2 inquiries related to direct deposit changes, and 1 inquiry related to W-4 withholding for the UH campus. 1 inquiry for email address changes was

received each for the UHCL and UHD campuses. None of the inquiries were identified to be security incidents.

UHCL:

- The UHCL Compliance Committee met on October 13, 2011 and based on goals for FY 2011 the committee decided on and completed the following Risk Assessment assignments for FY 2011 as:
 - Laboratory audits – updates
 - Facility deficiencies:
 - ❖ 39 of 40 eyewashes installed.
 - ❖ 7 – 9 hoods failed of 39 hoods, with 6 hoods with flow-meter issues – 1 quote out of 4 vendors review project was received for repairs.
 - ❖ 1 additional safety shower is needed, on hold pending a location.
 - Training, Personal Protective Equipment (PPE), Labeling
 - ❖ Lab training and Hazard Communications greater effort on compliance needed in 37 of 37 labs – faculty have developed a Power Point presentation.
 - ❖ PPE - Working on easier access to purchasing lab coats and goggles in 28 of 28 labs – list of PPE for classes completed, and faculty handling compliance.
 - ❖ Labeling – Proper labeling upkeep for chemical containers needed in 23 of 31 labs – new labels printed and training in progress to ensure compliance.
 - Property Handling - updates
 - General Accounting website updated for Policies and Procedures by November 2011.
- The UHCL Compliance Committee met on December 8, 2011 and Based on goals for FY 2012 the committee decided on the following Risk Assessment assignments for FY 2012 as:
 - ADA
 - Staff and Students –
 - ❖ Staff (Katherine Justice) – staff SAM on review. Applicant need software on testing computer was installed and testing completed on return. Another employee issue was performance versus disability.
 - ❖ Students (Shawn Murphy) – On-line courses on a request basis need captions for pictures. This requires faculty cooperation and web development.
 - Transportation – (Dr. Biggers) – mini bus for 12 students plus 2 wheelchairs was delivered for scheduled runs by Student Life. Only professional drivers will be used for the mini bus.

- Facilities (Cashier gate and Lot B) – (Ward Martaindale) – cashier gate is heavy and difficult to clear handicap station, will investigate a solution. Lot B is not official handicap spots.

UHD:

- The quarterly UHD Compliance Committee Meeting was held on December 8, 2011. Items on the agenda included the following:
 - In connection with the TAC 202 audit, IT selected data security as a major risk area to work on. The opening group discussion was on increasing campus awareness of the *Identity Finder* software, which is now installed on all employee PCs. Dianne Summers, Executive Director of University Relations, one of two guests invited to participate in discussion.
 - Institutional Level Risk Reports by Subject Matter Experts (exception reporting only)
 - Risk Assessment Updates included in the reports and discussions.
 - Closing comments incorporated fraud and non-compliance articles that appeared in the Houston Chronicle.

- Promoting Compliance and Compliance & Ethics
 - As follow up to Dr. Khator’s November 16th “Zero Tolerance for Improper Conduct” message, and at the direction of the president, a memo was sent to the UHD community (from the VPAF) regarding the university’s commitment to compliance and ethical behavior. The message included information about the website resources that are in place to support compliance and ethics at UHD, and direct links to the MySafeCampus home page.
 - Dr. Gail Evans forwarded the excerpts from the September 2011 “Case In Point” to the Faculty Senate members and included the link to the UHD Compliance and Ethics website, urging that all view it for additional information. Dr. Anjoo Sikka (former Faculty Senate President/member of the Compliance Committee) shared the e-mail with her department. Per Dr. Evans, “Faculty are much more likely to read something when it comes from someone they work with regularly.”
 - David Bradley forwarded the November and December 2011 “Case In Point” excerpts to the Executive Management Team, which were forwarded by the President to Executive Council.
 - With the support of Dr. Flores, on December 6th UHD leadership participated in a NACUBO webinar on “Sustaining an Ethical Culture on Campus.” Twenty-one individuals attended, representing Executive Management, Deans, Chairs and the Compliance Committee. Through the webinar national experts in the field of compliance presented information and shared firsthand experiences from their many years of working in higher education, emphasizing that even routine decisions can involve an ethical assessment.

- Information Technology Compliance Report for BOR – October through December 2011
 - **TAC 202 Security and Compliance Activities**

- IT Security Reporting. UHD IT continued to monitor university systems and electronic assets for security risks and events throughout the reporting period. Monthly security reports were prepared and submitted, as required by TAC 202, to the Department of Information Resources. A summary for the first fiscal quarter of FY 2012 was provided to the UHD Compliance Committee.
- IT Risk Management Plan Monitoring. During the reporting period the UHD IT Compliance Office staff completed the initial FY 2012 update to the IT Risk Management Plan. The document is revised annually and updated quarterly. For the FY 2012 initial update, IT reviewed and updated the Summary of Academic and Administrative Risks, adjusting listed systems and associated priorities as appropriate and revising the monitored risks according to the outcomes from the FY 2011 IT Security Risk Assessment. The office also completed the first quarter update and provided a copy to the UHD Institutional Compliance Office.

- **Audit Report 2009-20 Activities**

Action Item 3b, Work with university leadership to update UHD's Business Continuity Plan to include all business functions of the University.

STATUS

IT Leadership facilitated the review and approval of the University-wide Business Continuity Plan. The BCP results were shared with UH System Audit staff on October 5, 2011, as part of the system's ongoing monitoring of TAC 202 compliance, and UHD IT was advised by UH System Audit that the audit action item would continue to be monitored pending completion of the Student Services and Enrollment Management Division BCP detail and the University documented associated cost estimates for all university division business continuity plans (due January 30, 2012). In the month of December, IT provided information and assistance to the Student Services and Enrollment Management Division as it engaged in activities designed to complete the division's associated BCP detail.

- **Other Compliance Activities**

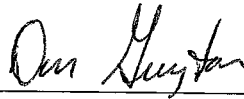
- Bacterial Meningitis – Texas Senate Bill 1107 (SB 1107). In November 2011, UHD IT staff facilitated the coordination and implementation of technology requirements to track and approve proof of meningitis vaccination for new and returning students in coordination with the UHD Division of Student Success and Enrollment Management and the project's contracted vendor, Magnus Health.
- Information Resources Deployment Review. State law, Texas Government Code Section 2054.0965, requires agencies to submit an Information Resources Deployment Review (IRDR) to the Department of Information Resources (DIR) by December 1 of each odd-numbered year. The UHD IT Compliance Office coordinated the collection of information and submission of the biannually required IRDR as required through an automated collection tool provided to state agencies and institutions of higher education by DIR, completing the university's submission on December 1, 2011.

UHV:

Notable activities for the quarter included:

- Quarterly campus Compliance Committee Meeting was held on October 26. Minutes posted online at <http://www.uhv.edu/Compliance/meetings.aspx>
- Financial Aid responded to State Audit from 2010 and returned the total liability due to the finding in the amount of \$2,635.24, which was calculated using the estimated actual loss formula.
- Information Technology submitted TAC 202 audit initial questionnaire in November. Auditors have not yet responded.
- Completed the annual review of Master Risk Assessment Matrix and updated accordingly by Research Administration, School of Business Administration, Athletics and Biology.
- Continued updating institutional policies and to view click on this link, http://www.uhv.edu/fin/policy/Policies_Procedures.aspx
- Human Resources distributed UHS Board of Regents policies to all employees on October 12, 2011.
- Athletics instituted new student athlete schedule change policy and procedures pertaining to student athletes changing class schedules. Student-athletes will need approval from the Faculty Athletic Representative to change their schedule after initial eligibility has been certified. This policy is designed to keep students from becoming ineligible during the season and impacting a team's season by participation as an ineligible student.
- Business Services coordinated the campus Fraud/Risk Survey. Completed on October 31, 2011 and questionable answers have been reviewed for compliance with departments.

This summary is taken from a more comprehensive campus report of compliance activities. To see the full report, go to: <http://www.uhv.edu/Compliance/manual/reports.aspx>. (Scroll to UHV Campus Reports, click on Quarterly Report, Period Ending December 31, 2011).



Don F. Guyton
System-wide Compliance Officer
January 11, 2012

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Audit and Compliance

ITEM: Report on Internal Audit Report – Briefing Booklet, including explanation of internal audit peer review process and proposed peer review team

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Internal Audit Briefing Booklet contains an Internal Audit Activity Outline and Internal Audit Reports issued since the November 16, 2011, Audit & Compliance Committee Meeting of the Board of Regents, and an explanation of the external review process and proposed peer review team. This booklet includes Activity Outline/Audit Plan Status and the Executive Summaries, Summary of Recommendations by Area, and Management Action Plans of the following Internal Audit Reports with risk levels ranked **High/Medium/Low**:

- AR2012-09 Follow-up Status Report
- AR2012-10 Construction Award Status Report
- AR2012-11 UH Information Security Standards
- AR2012-12 UH Provost Office, Endowments
- AR2012-13 UH Football Attendance, 2011 Season
- AR2012-14 UH Academic Affairs and Provost, Departmental Reviews

The Internal Audit Reports included in this booklet will be filed with the Governor’s Office of Budget and Planning, the Legislative Budget Board, the State Auditor, and the Sunset Advisory Committee within the next 30 days, as required by the Texas Government Code, Section 2102.0091.

SUPPORTING

DOCUMENTATION: Internal Audit Briefing Booklet (under separate cover)

FISCAL NOTE: None

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System

CHIEF AUDIT EXECUTIVE

Don Guyton
Don Guyton

DATE

1/25/12

CHANCELLOR

Renu Khator
Renu Khator

DATE

1/31/12



UNIVERSITY OF HOUSTON SYSTEM

Internal Auditing Department
Houston, Texas 77204-0930
(713)743-8000
Fax: (713)743-8015

MEMORANDUM

TO: Board of Regents

FROM: Don F. Guyton
Chief Audit Executive

DATE: January 25, 2012

SUBJ: Internal Audit Activity - Briefing Booklet for February 15, 2012, Audit & Compliance Committee Meeting

Attached for your information is a briefing booklet describing the activities of the Internal Auditing Department since the November 16, 2011, meeting of the Audit & Compliance Committee of the Board of Regents, and an explanation of the external review process and proposed peer review team. This booklet includes Activity Outline/Audit Plan Status and the Executive Summaries, Summary of Recommendations by Area, and Management Action Plans of the following Internal Audit Reports with risk levels ranked **High/Medium/Low**:

- AR2012-09 Follow-up Status Report
- AR2012-10 Construction Award Status Report
- AR2012-11 UHD Information Security Standards
- AR2012-12 UH Provost Office, Endowments
- AR2012-13 UH Football Attendance, 2011 Season
- AR2012-14 UH Academic Affairs and Provost, Departmental Reviews

The Internal Audit Reports included in this booklet will be filed with the Governor's Office of Budget and Planning, the Legislative Budget Board, the State Auditor, and the Sunset Advisory Committee within the next 30 days, as required by the Texas Government Code, Section 2102.0091. I shall be pleased to discuss the contents of the booklet with you at the upcoming Board of Regents meetings.

Please let me know if you have any questions.

Attachment

UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT

BOARD OF REGENTS
AUDIT & COMPLIANCE COMMITTEE
MEETING

INTERNAL AUDIT BRIEFING
MATERIALS

February 15, 2012

**University of Houston System
Internal Auditing Department**

**Board of Regents
Audit & Compliance Committee Meeting**

Internal Audit Briefing Materials

February 15, 2012

INDEX

1. Internal Audit Activity Outline / Audit Plan Status
2. Internal Audit Report Executive Summaries
3. Summary of Recommendations by Area
4. Management Action Plans
5. Internal Audit Reports
6. Internal Audit External Peer Review Team

**University of Houston System
Internal Auditing Department**

**Board of Regents
Audit & Compliance Committee Meeting**

**ACTIVITY OUTLINE
February 15, 2012**

1. Audit Reports Issued since November 16, 2011, Board of Regents Meeting
 - AR2012-09 Follow-up Status Report
 - AR2012-10 Construction Award Status Report
 - AR2012-11 UHD Information Security Standards
 - AR2012-12 UH Endowments (Provost)
 - AR2012-13 UH Football Attendance, 2011 Season
 - AR2012-14 UH Office of Academic Affairs & Provost, Departmental Reviews

2. Reports in Progress
 - UH Texas Learning Computation Center (*May 2012*)

3. Fieldwork in Progress (*scheduled distribution date to Board of Regents*)
 - UH Texas Institute for Measurement, Evaluation and Statistics (*May 2012*)
 - UH Athletics, Rules Compliance (*May 2012*)
 - TAC 202, Information Security Standards (UHCL, UHV) (*May 2012*)
 - UH Financial Reporting (*May 2012*)
 - UH College of HRM, Operational Review (*May 2012*)
 - UH Endowments (Non-College Specific, System Administration) (*May 2012*)
 - UHS / UH Chancellor / President Travel, FY 2012
 - UHS Board of Regents Travel, FY 2012

4. Planning in Progress
 - Student Accounting & Receivables (UH, UHCL, UHD, UHV)
 - UH Center for Advanced Materials
 - UHV Departmental Review (President, Education, Arts & Sciences, Business)
 - Financial Aid (UHCL, UHD, UHV)

5. Special Projects in Progress:
 - Assistance to External Auditors – State Auditor’s Office Annual Statewide Audit
 - Assistance to External Auditors – State Auditor’s Office SACS Review, UHCL
 - Assistance to Management – Various Special Projects
 - FEMA Audit - Allison

**AUDIT PLAN STATUS, FY 2012
AS OF JANUARY 19, 2012**

<u>AUDIT AREA</u>	<u>STATUS</u> <u>(See Note)</u>	<u>AUDIT AREA</u>	<u>STATUS</u> <u>(See Note)</u>
<u>ANNUAL AUDIT ACTIVITY</u>		<u>DEPARTMENTAL REVIEWS</u>	
Annual External Audits - Liaison		Effectiveness of New Departmental Review Process	4
Athletics - Football Attendance Audit	4	UH Research	
Board of Regents Travel, FY 2012	2	UH University Advancement	
Chancellor/President's Travel, FY 2012	2	UHCL Education	
Follow-up Reviews	2	UHCL President's Office	
Special Projects/Police Investigations	2	UHD Administration & Finance	
State Auditor's Office Liaison:		UHD Employment Services & Operations	
Regional Accrediation Review - SACS (UHCL)	2	UHD President's Office	
Audit Assistance - General	2	UHD Public Service	
Follow-up Reports	2	UHD Student Services & Enrollment Management	
		UHV Arts & Sciences	1
		UHV Business Administration	1
		UHV Education	1
		UHV President's Office	1
<u>ALL COMPONENTS</u>		<u>CARRYFORWARD AUDITS</u>	
Auxiliary Contract Administration		Athletics - NCAA Rules Compliance	2
Formula Funding		Board of Regents Travel, FY 2011	4
Endowments		Chancellor/President's Travel, FY 2011	4
UH College of Architecture		Contract & Grants Admin. (UHCL, UHD, and UHV)	
UH College of Business		Departmental Reviews	
UH Graduate College of Social Work		UH Academic Affairs/Provost Division	4
UH College of Hotel & Restaurant Management		UH College of Hotel & Restaurant Management	4
UH College of Law		UH Graduate College of Social Work	4
UH Texas Center for Superconductivity		Endowments (UH):	
Financial Aid (UHCL, UHD, and UHV)	1	UH Engineering	4
General Accounting		UH Non-College Specific	2
		UH Provost	4
		UH System	2
<u>RESEARCH CENTERS</u>		Financial Reporting (all components)	2
UH Center for Materials Chemistry		Financial Aid, Direct Loans (UHCL, UHD, and UHV)	1
UH/UHCL Institute for Space System Operations		Research Centers	
UH Texas Center for Superconductivity		UH Center for Advanced Materials	1
		UHCL/UH Environmental Institute of Houston	
		UH Texas Inst. for Measurement, Eval. & Statistics	2
		UH Texas Learning & Computation Center	3
<u>INFORMATION TECHNOLOGY</u>		Student Accounting & Receivables (all components)	1
IT - Review and Monitor of IT Systems		TAC 202 (UHD)	4
PeopleSoft Student & Academic Administration		TAC 202 (UHCL and UHV)	2
- Post-Implementation Review		UH College of HRM, Operational Review	2
UH Desktop Computing Support, User Support			
Services, Training, Computer Store			
UH Information Security			
UH Web Support Services			
TAC 202 (UH)			
<u>QUALITY ASSURANCE REVIEWS</u>			
Internal Auditing Internal Quality Assurance Review			
Internal Auditing External Quality Assurance Review			

Notes:

- 1 Planning in progress.
- 2 Fieldwork in progress.
- 3 Reporting in progress.
- 4 Completed.

UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT

INTERNAL AUDIT REPORTS

EXECUTIVE SUMMARIES

REPORT NOS. AR2012-09 through AR2012-14

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

INTERNAL AUDIT REPORTS - EXECUTIVE SUMMARIES

Internal Audit Report – Follow-up Status Report

The Standards for the Professional Practice of Internal Auditing require internal auditors to perform follow-up procedures to ascertain that appropriate action is taken on reported audit findings. We performed such procedures for all items included in management action plans which were scheduled to be implemented October 1, 2011, to December 31, 2011, in all audit reports with open recommendations. This status report addresses 20 management actions in 10 individual reports. In ascertaining whether appropriate action was taken, we interviewed personnel, reviewed documentation and performed other audit procedures as necessary. We determined that 13 of these management actions have been completed, 6 partially implemented and 1 not implemented.

Internal Audit Report – Construction Award Status Report

The internal audit review of construction procurement of major construction projects covers the time period from October 1, 2011 to December 31, 2011. We perform the following procedures for each major construction project:

- We review the RFQ / RFP posted on the State Comptroller's Electronic State Business Daily, noting evaluation criteria and submission deadlines and other requirements.
- We review the Purchasing Department's compilation of the selection team members' rankings of RFQ / RFP for clerical accuracy and agreement of evaluation criteria to RFQ / RFP.
- We review the Purchasing Department's recommendation of RFQ / RFP to the EVP for reasonableness.
- We review the EVP's evaluation of the Purchasing Department's recommendation of RFQ / RFP for reasonableness.

We noted no unusual items or other matters that we considered non-compliant with university policies and procedures or state statutes.

Internal Audit Report – UHD, Information Security Standards

Texas Administrative Code Title 1, Part 10, Chapter 202 – Information Security Standards (TAC 202), requires all institutions of higher education to comply with the regulations set forth in Subchapter C - Security Standards for Institutions of Higher Education. For this engagement, we evaluated the information security policies, practices and procedures at the University of Houston–Downtown for the following areas: security standards policy, management and staff responsibilities, managing security risks, managing physical security, business continuity planning, information resources security safeguards, security incidents, user security practices, and removal of data from data processing equipment. In our opinion, the University of Houston–Downtown's information security program in these areas helps ensure compliance with TAC 202, Subchapter C. Although we noted no matters that we considered to be significant audit

findings, we did note that the University is in the process of finalizing its Business Continuity Plan.

Internal Audit Report – UH Provost Office, Endowments

We performed a review of the endowments managed by the UH Provost Office. The primary objective of our review was to determine whether the Provost Office is managing endowment funds effectively and efficiently and is complying with the terms of the endowment agreements. In our opinion, the Provost Office is managing endowment funds effectively and efficiently and is complying with the terms of the endowment agreements.

Internal Audit Report – UH Football Attendance, 2011 Season

The Internal Auditing Department conducted a review to certify attendance for each home football game as required by 2011-12 NCAA Bylaws. The average paid attendance for the 2011 Houston Cougar football home game season calculated using the terms and conditions stipulated by the NCAA exceeds the minimum attendance requirements (15,000 per game average).

Internal Audit Report – UH Academic Affairs and Provost, Departmental Reviews

The objective of the Departmental Review is to determine whether departments are conducting financial and administrative activities in compliance with university policies. We performed eight departmental reviews in the Office of Academic Affairs and Provost. We conducted interviews, reviewed documentation, and performed other audit procedures, as necessary, in testing compliance with various policies for each compliance area. We noted no matters that we considered to be significant engagement observations. We noted that the Office of Academic Affairs and Provost was not in compliance with certain policies. Management agreed to implement an action plan for an area of non-compliance and informed us that it would take the necessary actions in order to help prevent reoccurrences of similar instances of non-compliance with university policies.

Internal Auditing Department
Internal Audit Report Recommendations - Summarized by Area
February 15, 2012

REPORT NAME	Rpt. No.	Modify Policies and Procedures			Noncompliance with Guidelines			Efficiency of Resources	Contracts / Agreements	EDP / System Issues			Basic Internal Controls				Human Resources			
		UHS	Campus	Dept.	Fed./Other	State	UHS			Modif.	Security	Other	Reconcil. of Duties	Segreg. Handling	Cash Assets	Safeguard Other	Job Descr.	Training	Other	
Follow-up Status Report	AR2012-09																			
Construction Award Status Report	AR2012-10																			
UHD Information Security Standards	AR2012-11						X													
UH Provost, Endowments	AR2012-12																			
UH Football Attendance, 2011 Season	AR2012-13																			
UH Office of Academic Affairs & Provost, Departmental Reviews	AR2012-14						X		X					X			X		X	X

UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT

INTERNAL AUDIT REPORTS

ACTION PLANS

(Who is responsible for performing certain action by a specific date)

REPORT NOS. AR2012-09 through AR2012-14
(If Applicable)

Note: The Internal Auditing Department will perform follow-up procedures to determine whether management's actions addressing the recommendations have been implemented by the dates indicated in the management action plan. Follow-up status reports are included in the Internal Auditing Briefing Booklets for regularly scheduled Board of Regents Audit & Compliance Committee meetings.

**University of Houston System
Internal Auditing Department**

**UH Office of Academic Affairs and Provost, Departmental Reviews - AR2012-14
Action Plan**

Est. Compl.	Responsibility for Action	
<u>Date</u>	<u>Name/Title</u>	<u>Action To Be Taken</u>
Risk Level: High Medium Low		
Action Complete	Lisa Shumate, Executive Director/General Manager of Houston Public Media	Submit a plan to address the deficit funds groups to the Executive Vice President for Administration and Finance for approval.

Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.

UNIVERSITY OF HOUSTON SYSTEM INTERNAL AUDITING DEPARTMENT

INTERNAL AUDIT REPORTS

AR2012-09	Follow-up Status Report
AR2012-10	Construction Award Status Report
AR2012-11	UHD Information Security Standards
AR2012-12	UH Provost Office, Endowments
AR2012-13	UH Football Attendance, 2011 Season
AR2012-14	UH Academic Affairs and Provost, Departmental Reviews

Note: These internal audit reports are submitted to the Board of Regents and the Chancellor for their review in order to comply with the Board of Regents policy and the Texas Government Code, Section 2102.008. These internal audit reports are also submitted to the Governor's Office of Budget and Planning, the Legislative Budget Board, the State Auditor, and the Sunset Advisory Committee in order to comply with the Texas Government Code, Section 2102.0091.

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM

FOLLOW-UP STATUS REPORT

Actions Scheduled from October 1, 2011 to
December 31, 2011

REPORT NO. AR2012-09

**University of Houston System
Internal Auditing Department**

**Follow-up Status Report
(Actions scheduled from October 1, 2011, to December 31, 2011)**

The Standards for the Professional Practice of Internal Auditing require internal auditors to perform follow-up procedures to ascertain that appropriate action is taken on reported audit findings. We performed such procedures for all items included in management action plans which were scheduled to be implemented October 1, 2011, to December 31, 2011, in all audit reports with open recommendations. This status report addresses 20 management actions in 10 individual reports. In ascertaining whether appropriate action was taken, we interviewed personnel, reviewed documentation and performed other audit procedures as necessary. We determined that 13 of these management actions have been completed, 6 partially implemented and 1 not implemented.

The main portion of this report is a follow-up status matrix which lists the report number, report title, action number, total actions in each report, estimated completion date, name/title/entity responsible for action, action to be taken and status. The status of the action items included in the matrix has been categorized as either ***Action Complete, Partially Implemented or Not Implemented***. In cases where the action item has been partially implemented or not implemented, an updated management's response with an estimated completion deadline is included in the status column, where appropriate.

The "Listing of Audit Reports Containing Management Action Plans" indicates all reports where management has addressed all actions in the action plan during the current fiscal year and all reports which are addressed in this status report. All of the management action plans for internal audit reports contain a footnote indicating that documentation of implementation of actions will be furnished to the Internal Auditing Department on the same date as the estimated completion date of the action being implemented.

Don F. Guyton
Chief Audit Executive
January 19, 2012

Attachment

**UNIVERSITY OF HOUSTON SYSTEM
FOLLOW-UP STATUS REPORT
(Actions Scheduled from October 31, 2011, to December 31, 2011)**

**Board of Regents Audit Committee Meeting
February 15, 2012**

Table of Contents

1. Report
2. Listing of Audit Reports Containing Management Action Plans
3. Follow-up Status Matrix

**University of Houston System
Internal Auditing Department**

**Follow-up Status Report
as of December 31, 2011**

Internal Audit Report Number	Report Title	Action No.	Total Actions	Est. Compl. Date	Responsibility For Action		Action To Be Taken	Status
					Name / Title	Entity		
Risk Level: High Medium Low								
AR2009-12	College of Natural Sciences & Mathematics Departmental Reviews	22i	48	11/30/2011	Jennifer Chin-Davis Department Business Administrator Physics Department	UH	Work with the Office of Contracts and Grants to close expired project cost centers and with the Budget Office to close expired HEAF cost centers.	Partially Implemented - Updated Management's Response: The department is working with the Office of Contracts and Grants and the Budget Office to close expired project and HEAF cost centers. Estimated completion date: March 31, 2012.
AR2009-22 (PRT)	UHS Facilities Development Project	15b	24	11/1/2011	Chris McCall AVP Facilities Management	UHD	Perform campus-wide room walk-through, to ensure that reported room area (square footage) is accurate and verifiable.	Action Complete
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	12e	114	12/31/2011	Steven Wallace Director Theater Department	UH	Restore deficit balances to zero or positive amounts and implement procedures to help prevent spending funds that are not budgeted.	Not Implemented - Updated Management's Response: At year end FY 2011, Department H0085 Fund Group 2 contained a deficit equity balance of \$270,726; and Department H0085 Fund Group 4 contained a deficit equity balance of \$285,012. The CLASS Dean's Office has taken on the financial responsibility of the School of Theatre and Dance. A budget has been agreed upon and monthly meetings will be held with the CLASS Department Business Administrator (DBA) and the Director of the School of Theatre and Dance. Revenues and expenses will be closely monitored and budgets will be reduced if necessary. The CLASS DBA is working with the Department Chair to reduce the deficit equity balances. Estimated completion date: August 31, 2012.
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	13e	114	12/31/2011	Steven Wallace Director Theater Department	UH	Restore project/grant cost center budgetary balances to zero or positive amounts and work with the appropriate office to close expired project/grant cost centers.	Action Complete
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	26d	114	12/31/2011	Geoffrey Pierce Department Business Administrator Communication Sciences & Disorders	UH	Restore deficit budgetary balances to zero or positive amounts, implement procedures to prevent spending funds that are not available, and work with the appropriate office to close expired project/grant cost centers.	Action Complete
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	39c	114	12/31/2011	Linda Garza & Elizabeth Shepard Department Business Administrators Dean's Office	UH	Restore deficit balances to zero or positive amounts and implement procedures to help prevent spending funds that are not budgeted.	Action Complete

**University of Houston System
Internal Auditing Department**

**Follow-up Status Report
as of December 31, 2011**

Internal Audit Report Number	Report Title	Action No.	Total Actions	Est. Compl. Date	Responsibility For Action		Action To Be Taken	Status
					Name / Title	Entity		
Risk Level: High Medium Low								
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	67b	114	12/31/2011	Lynn Smith Department Business Administrator Anthropology Department	UH	Restore deficit budgetary balances to zero or positive amounts and implement procedures to prevent spending funds that are not available, in accordance with university policies.	<i>Action Complete</i>
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	78d	114	12/31/2011	Isaac Davis Department Business Administrator Psychology Department	UH	Restore deficit budgetary balances to zero or positive amounts, implement procedures to prevent spending funds that are not available, and work with the appropriate office to close expired project/grant cost centers.	<i>Action Complete</i>
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	89b	114	12/31/2011	Linda Garza & Elizabeth Shepard Department Business Administrators Dean's Office	UH	Restore deficit balances to zero or positive amounts and implement procedures to help prevent spending funds that are not budgeted. (Religious Studies)	<i>Action Complete</i>
AR2010-17	Departmental Reviews UH Law Center	1a	13	2/1/2012	Mybao Nguyen Director of College Business Operations	UH	Ensure timely completion of all required training, in accordance with university policies.	<i>Action Complete</i>
AR2010-26	Athletics NCAA Rules- Compliance	1b	5	10/1/2011	Kevin Klotz Associate Athletics Director of Compliance & Eligibility Athletics Department	UH	Ensure that recruiting records are collected and maintained for all prospective student athletes, in accordance with the Athletic Compliance policies and procedures.	Partially Implemented - Updated Management's Response: All recruiting records are recorded through ACS InControl Software system. Recruiting reimbursements are not processed without recruiting activity being logged in system. All coaches are required to log recruiting activities using ACS InControl System. This information will be included in the Athletic Compliance policies and procedures manual that is scheduled to be released week two of the Spring 2012 semester. Estimated Completion Date: February 1, 2012.

**University of Houston System
Internal Auditing Department**

**Follow-up Status Report
as of December 31, 2011**

Internal Audit Report Number	Report Title	Action No.	Total Actions	Est. Compl. Date	Responsibility For Action		Action To Be Taken	Status
					Name / Title	Entity		
Risk Level: High Medium Low								
AR2010-26	Athletics NCAA Rules-Compliance	3b	5	10/1/2011	Kevin Klotz Associate Athletics Director of Compliance & Eligibility Athletics Department	UH	Work with the Sport Administrators to obtain all camp and clinic documentation to conduct a thorough review of the administration of the camp/clinic in order to make the Athletics Director, camp director or head coach and the camp director's or head coach's direct supervisor aware of any concerns related to the administration of the camp/clinic, including potential violations of NCAA legislation, in accordance with Athletic Compliance policies and procedures.	<i>Action Complete</i>
AR2010-26	Athletics NCAA Rules-Compliance	5b	5	10/1/2011	Kevin Klotz Associate Athletics Director of Compliance & Eligibility Athletics Department	UH	Obtain documented prior written approval to operate all camps/clinics and on Student-Athlete Employment Approval Forms for all student-athletes that plan to work at camps/clinics, in accordance with Athletic Compliance policies and procedures.	<i>Action Complete</i>
AR2011-11	College of Optometry, Departmental Review	2	3	12/31/2011	Mary Juarez College Business Administrator	UH	Work with the Division of Research to deactivate expired grant cost centers.	<i>Partially Implemented - Updated Management's Response:</i> Of the original list of 55 open expired grant cost centers, 37 have been closed. Of the remaining 18 cost centers that need to be resolved, the majority have equity or cash issues that we are working with the Office of Contracts and Grants to resolve. Estimated completion date: June 30, 2012.
AR2011-16	Departmental Reviews UHD Office of the Vice President for Academic Affairs and Provost	1a	1	12/31/2011	Elaine Pearson Division Business Administrator III Office of the Vice President for Academic Affairs and Provost	UHD	Develop and implement procedures to require the formal review and approval of fees charged for new continuing education courses and for the annual review of existing courses to help ensure fees are sufficient to recover the costs of providing the course.	<i>Action Complete</i>
AR2011-24	UH Research Administration	1a	6	12/31/2011	Selesta Hodge, Business Administrator, Division of Research	UH	Develop procedures to monitor grant cost centers to help ensure that deficit budgets are addressed in a timely manner.	<i>Partially Implemented - Updated Management's Response:</i> The Division of Research has drafted procedures to monitor grant cost centers that have expired or have deficit budgets. The procedures have been developed but they have not been adequately publicized or placed on the Division of Research website. Estimated completion date: February 29, 2012.

**University of Houston System
Internal Auditing Department**

**Follow-up Status Report
as of December 31, 2011**

Internal Audit Report Number	Report Title	Action No.	Total Actions	Est. Compl. Date	Responsibility For Action		Action To Be Taken	Status
					Name / Title	Entity		
Risk Level: High Medium Low								
AR2011-24	UH Research Administration	2a	6	12/31/2011	Selesta Hodge, Business Administrator, Division of Research	UH	Develop procedures to help ensure that expired grant cost centers are closed in a timely manner.	<i>Partially Implemented - Updated Management's Response:</i> The Division of Research has drafted procedures to monitor grant cost centers that have expired or have deficit budgets. The procedures have been developed but they have not been adequately publicized or placed on the Division of Research website. Estimated completion date: February 29, 2012.
AR2011-25	Athletics Department, Endowments	2a	3	11/30/2011	Jeramiah Dickey Associate Athletics Director for Development T.J. Meagher Associate Athletics Director for Internal Operations/Chief Financial Officer Athletics Department	UH	Notify on an annual basis, endowment restrictions to all Athletic personnel responsible for endowments to help ensure compliance with terms.	<i>Action Complete</i>
AR2011-25	Athletics Department, Endowments	3a	3	11/30/2011	Jeramiah Dickey Associate Athletics Director for Development	UH	Work with University Advancement to modify the terms of the endowment that has changed.	<i>Partially Implemented - Updated Management's Response:</i> The modified endowment agreement is currently in the university signature process. Estimated completion date: April 30, 2012.
AR2011-34	UH College of Natural Sciences and Mathematics, Endowments	2a	3	12/1/2011	Fred McGhee Executive Director of College Business Operations UH College of Natural Sciences and Mathematics	UH	Work with University Advancement to provide accurate and complete information to the donor.	<i>Action Complete</i>

**UNIVERSITY OF HOUSTON SYSTEM
AUDIT REPORTS CONTAINING MANAGEMENT ACTION PLANS
FOLLOW-UP STATUS
FY 2012**

<u>Report Number</u>	<u>Report Date</u>	<u>REPORT TITLE</u>	<u>All Actions Complete Final Disposition Rept. No.</u>	<u>Some Actions Addressed in this Report</u>
<u>INTERNAL AUDIT REPORTS WITH OPEN RECOMMENDATIONS:</u>				
AR1999-08	02/18/99	UH, Physical Plant Department, 3rd FU		
AR2009-02	12/09/08	UH College of Technology - Departmental Reviews		
AR2009-12	02/10/09	UH NSM - Departmental Reviews		X
AR2009-18	04/14/09	UH Division of Administration & Finance - Dept. Reviews	AR2012-01	
AR2009-20	04/14/09	UHD Information Securities Standards		
AR2009-22	08/11/09	UHS Facilities Development Project		X
AR2010-02	11/05/09	UHCL TAC 202		
AR2010-03	11/05/09	UH TAC 202		
AR2010-07	11/05/09	UH, CLASS - Departmental Reviews		X
AR2010-17	05/12/10	UH Law Center, Departmental Reviews	AR2012-09	X
AR2010-26	08/11/10	UH Athletics, NCAA Rules-Compliance		X
AR2011-05	02/16/11	UH, Division of Student Affairs Departmental Reviews		
AR2011-11	02/16/11	UH College of Optometry Departmental Review		X
AR2011-16	02/16/11	UHD Office of Academic Affairs & Provost Departmental Reviews	AR2012-09	X
AR2011-17	02/16/11	UHV, Financial Aid Pell Grants	AR2012-01	
AR2011-18	02/16/11	UHCL, Financial Aid Pell Grants	AR2012-01	
AR2011-19	02/16/11	UHD, Financial Aid Pell Grants	AR2012-01	
AR2011-22	05/18/11	UHCL, Office of Academic Affairs & Provost Dept. Reviews	AR2012-01	
AR2011-23	05/18/11	Executive and Foreign Travel, All Components	AR2012-01	
AR2011-24	05/18/11	UH Research Administration		X
AR2011-25	05/18/11	Athletics Department, Endowments		X
AR2011-26	05/18/11	College of Education, Endowments		
AR2011-29	08/17/11	UH Library, Endowments	AR2012-01	
AR2011-34	08/17/11	UH College of Natural Sciences & Mathematics, Endowments	AR2012-09	X
AR2012-07	11/16/11	UH, Graduate College of Social Work - Departmental Review		
<u>EXTERNAL AUDIT REPORTS WITH OPEN RECOMMENDATIONS:</u>				
SAO Report #05-010	11/02/04	UH - The Protection of Confidential Information and Critical Systems	AR2012-01	

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM

CONSTRUCTION AWARD STATUS REPORT

Activity from October 1, 2011 to
December 31, 2011

REPORT NO. AR2012-10

University of Houston System
Internal Auditing Department
Construction Award Status Report
October 1, 2011 through December 31, 2011

Background: UHS procures construction services under the provisions of the Texas Education Code, Sections 51.779 – 51.785. These statutes address the following construction contract methods: Design-Build, Construction Manager-Agent, Construction Manager-At-Risk, Construction Services through Competitive Sealed Proposals and Job Order Contracts. The UHS Facilities, Planning and Construction Department and the Purchasing Department have developed policies and procedures to help ensure compliance with these statutes. For major construction projects, UHS primarily uses the Design-Build and Construction Manager-At-Risk contract methods. The Internal Auditing Department reviews the construction RFQ / RFP evaluation process on an ongoing basis.

Objective: The objectives of this review are to determine whether UHS is complying with its policies and procedures and the Texas Education Code in selecting its contractors for its major construction projects.

Scope of Work: The internal audit review of construction procurement of major construction projects covers the time period from October 1, 2011 through December 31, 2011.

Audit Procedures: We perform the following procedures for each major construction project:

1. We review the RFQ / RFP posted on the State Comptroller's Electronic State Business Daily, noting evaluation criteria and submission deadlines and other requirements.
2. We review the Purchasing Department's compilation of the selection team members' rankings of RFQ / RFP for clerical accuracy and agreement of evaluation criteria to RFQ / RFP.
3. We review the Purchasing Department's recommendation of RFQ / RFP to the EVP for reasonableness.
4. We review the EVP's evaluation of the Purchasing Department's recommendation of RFQ / RFP for reasonableness.

Appendices: Attached is an analysis of internal audit activity related to the construction projects awards evaluations (Appendix 1), the Purchasing Department Flowchart for construction activity (Appendix 2) and the FP&C Selection of Design-Build Team Flowchart (Appendix 3).

Conclusion: We noted no unusual items or other matters that we considered non-compliant with university policies and procedures or state statutes.

Don F. Guyton
Chief Audit Executive
January 19, 2012

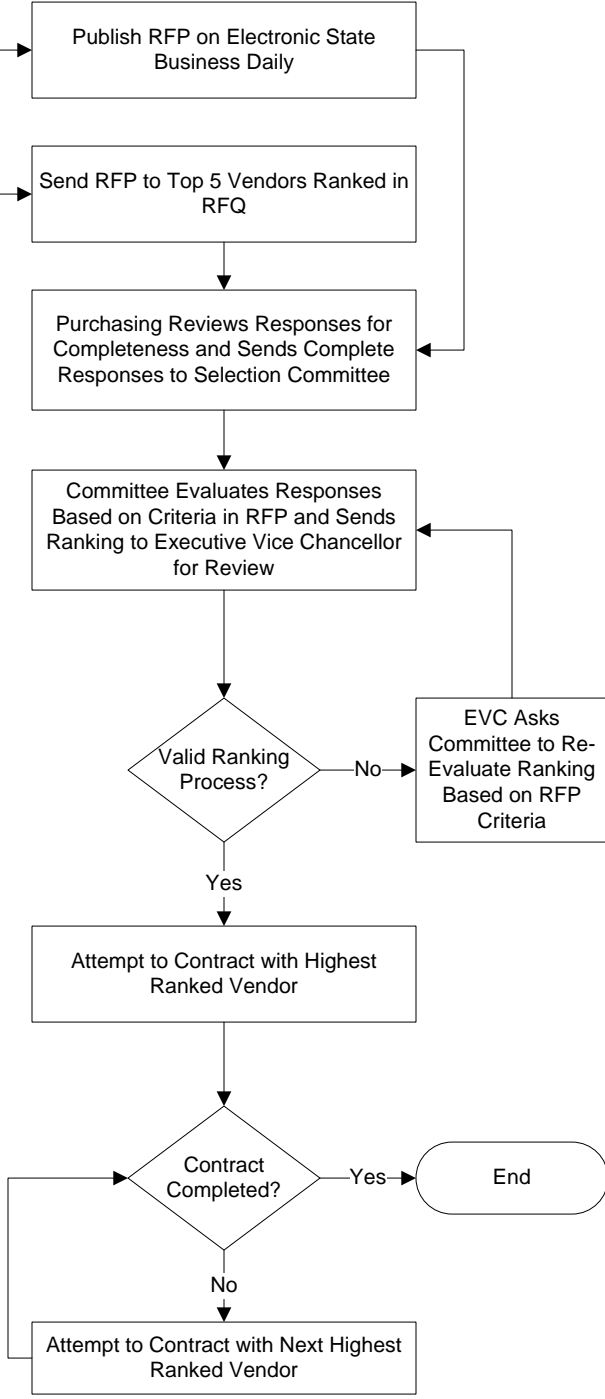
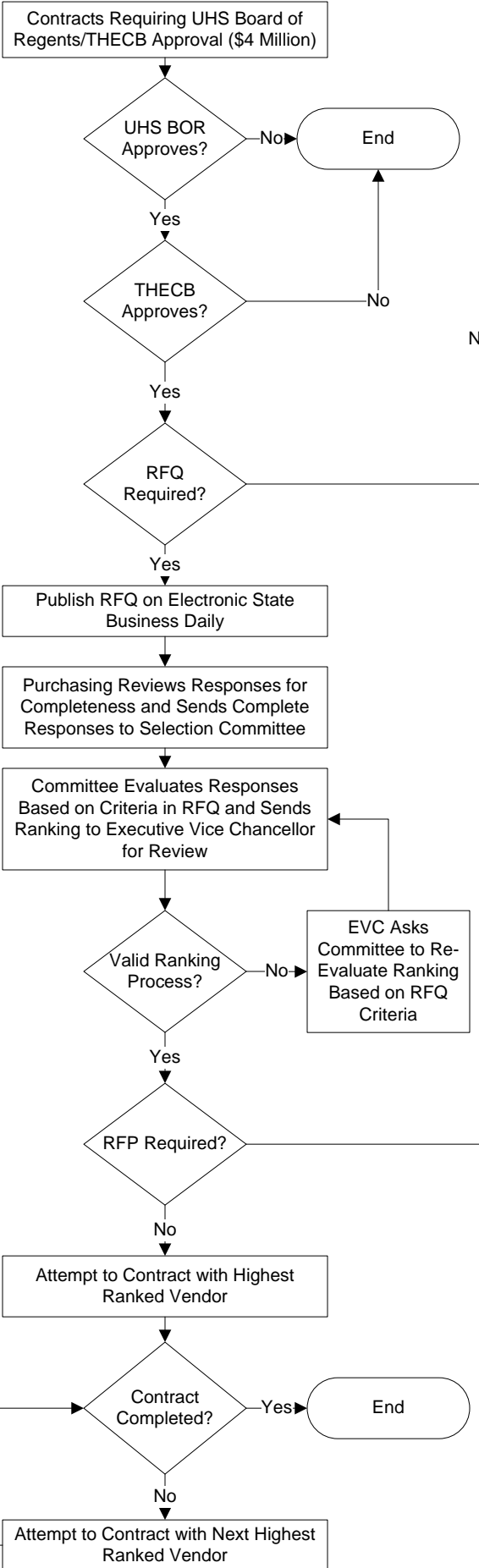
UHS Construction Projects
Internal Audit Activity
October 1, 2011 to December 31, 2011

<u>Project Description</u>	(\$ millions) <u>Amount</u>	BOR Approval		Pre-award Milestones							
		FCMP Comm. (Scope) <u>Date</u>	F&A Comm. (Financing) <u>Date</u>	Posting of RFQ to ESBD	Eval. of Qualification Rankings by Purchas.	Eval. of Purchasing Rec. by EVC AF	<u>Review</u> by <u>Int. Aud.</u>	Posting of RFP to ESBD	Eval. of Propoal Rankings by Purchas.	Eval. of Purchasing Rec. by EVC AF	<u>Review</u> by <u>Int. Aud.</u>
DB - UHV Residential Housing Complex	12	5/17/2011	8/17/2011	3/15/2011	5/11/2011	5/11/2011	✓	7/26/2011	9/12/2011	9/13/2011	✓
DB - Cougar Place	38	5/17/2011	8/17/2011	5/11/2011	6/21/2011	6/21/2011	✓	6/24/2011	8/1/2011	8/1/2011	✓
DB - Cougar Village II	50	5/17/2011	5/17/2011	6/3/2011	7/19/2011	7/19/2011	✓	7/21/2011	9/1/2011	9/1/2011	✓
Multi-Modal Parking Garage	16.5	8/16/2011	8/17/2011	9/21/2011	11/17/2011	11/17/2011	✓	11/21/2011			

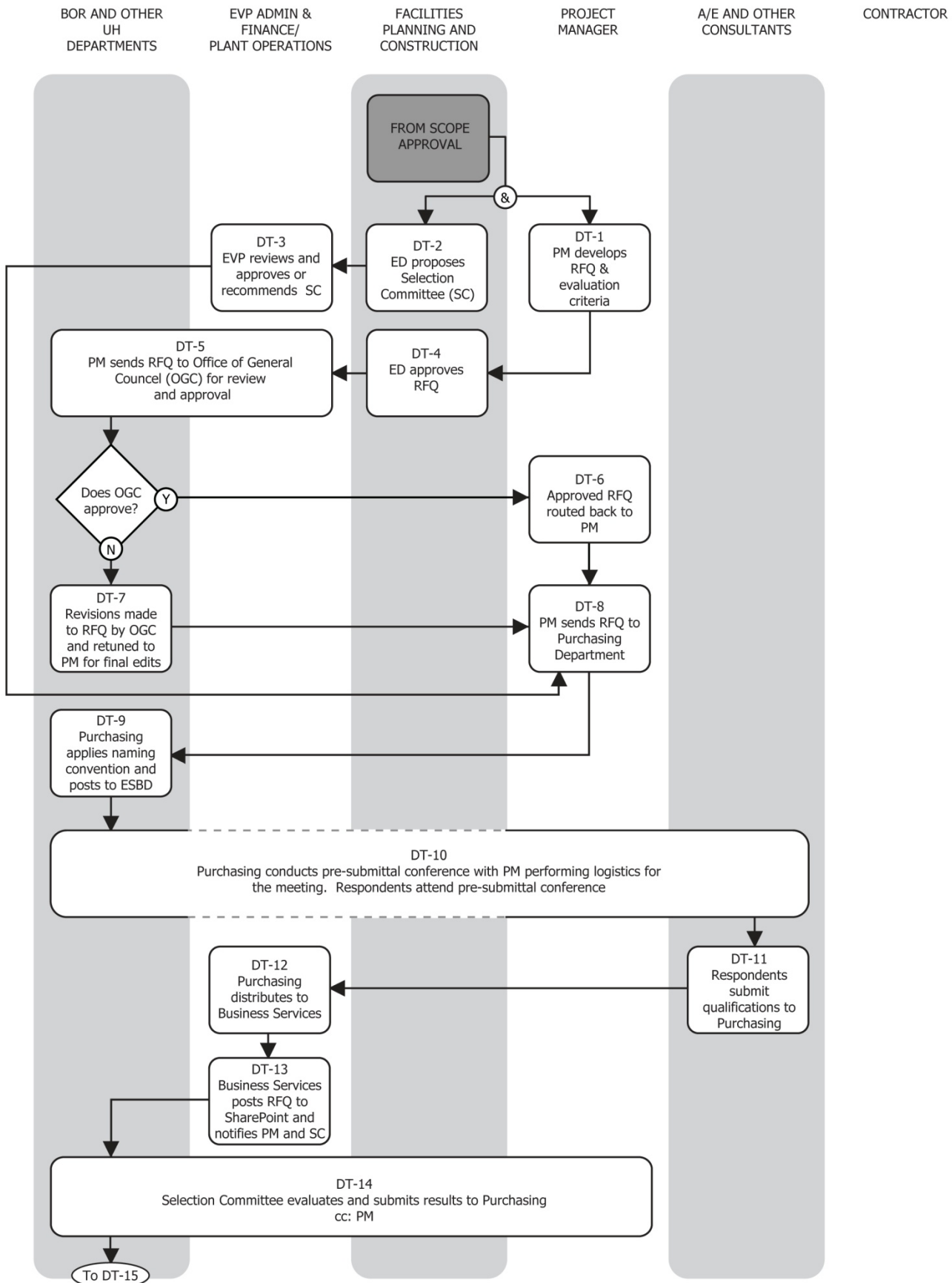
✓ (1) Confirmed date of posting RFQ/RFP to ESBD, (2) Confirmed evaluation criteria and weights used by selection team, (3) Checked clerical accuracy of Purchasing Department's compilation of selection team evaluation, (4) Reviewed EVC AF evaluation of purchasing recommendation for reasonableness.

Request for Qualifications (RFQ)

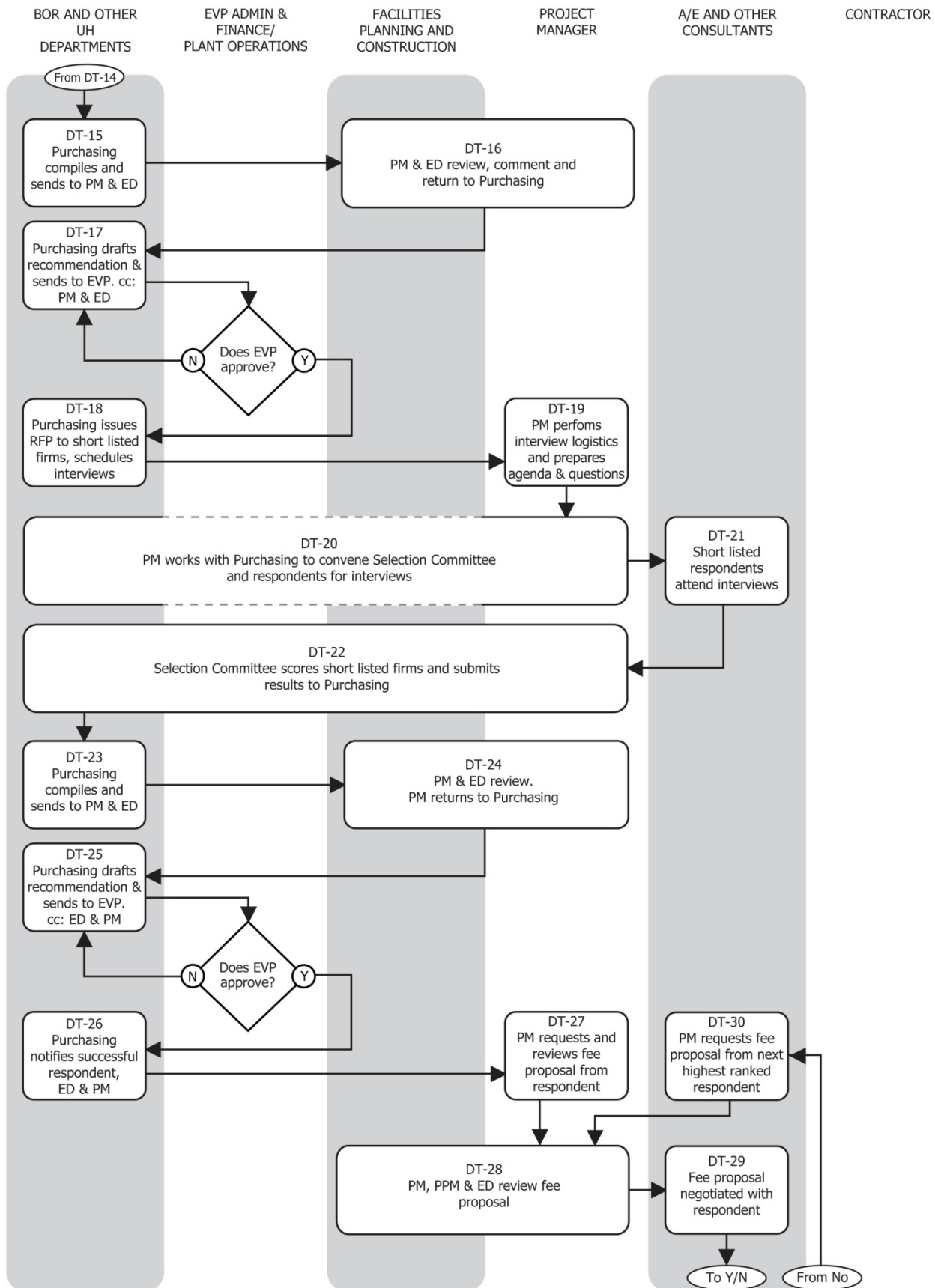
Request for Proposal (RFP)



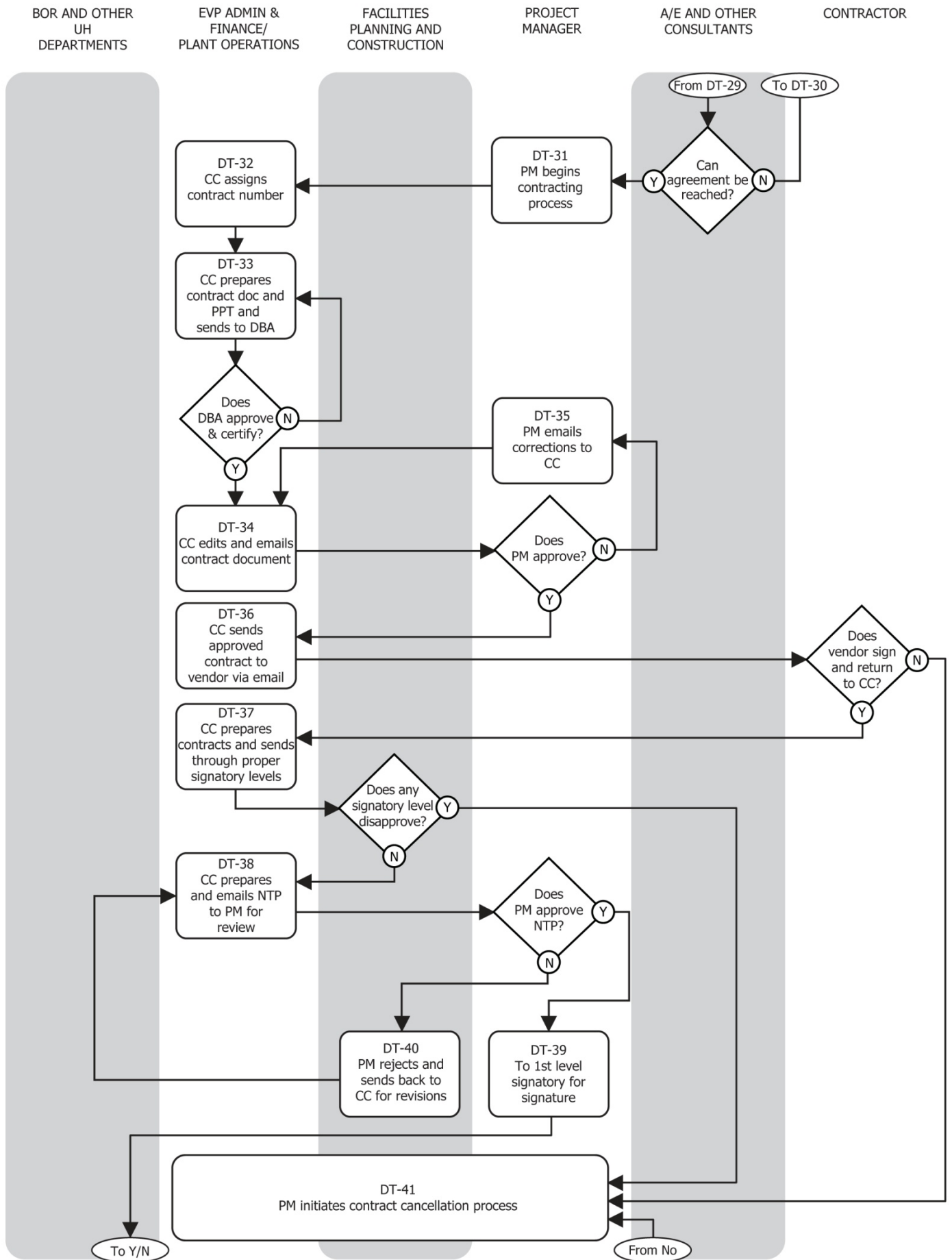
DESIGN TEAM SELECTION FLOWCHART



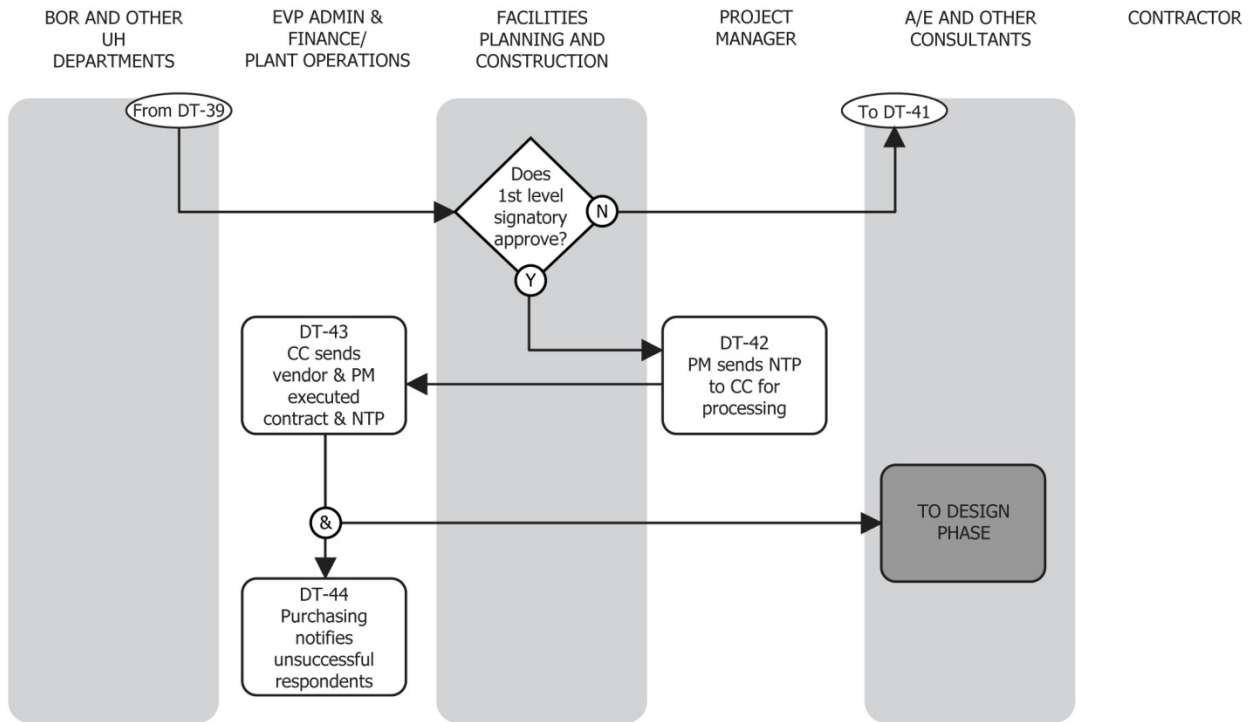
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UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON - DOWNTOWN

INFORMATION SECURITY STANDARDS

REPORT NO. AR2012-11

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON-DOWNTOWN
INFORMATION SECURITY STANDARDS**

Texas Administrative Code Title 1, Part 10, Chapter 202 – Information Security Standards (TAC 202), requires all institutions of higher education to comply with the regulations set forth in Subchapter C - Security Standards for Institutions of Higher Education.

For this engagement, we evaluated the information security policies, practices and procedures at the University of Houston-Downtown for the following areas: security standards policy, management and staff responsibilities, managing security risks, managing physical security, business continuity planning, information resources security safeguards, security incidents, user security practices, and removal of data from data processing equipment. These areas were reviewed using the requirements of TAC 202, Subchapter C. We conducted interviews, reviewed documentation, and performed other audit procedures, as necessary, in testing compliance with regulations in each area.

In our opinion, the University of Houston-Downtown’s information security program in these areas helps ensure compliance with TAC 202, Subchapter C. Although we noted no matters that we considered to be significant audit findings, we did note that the University is in the process of finalizing its Business Continuity Plan. The compliance matrix below lists areas tested, and whether the campus fully complies with TAC 202 rules or the number of instances of non-compliance.

COMPLIANCE MATRIX	
Compliance Area	Instances of Non-Compliance
Security Standards Policy	Fully Complies
Responsibilities	Fully Complies
Managing Security Risks	Fully Complies
Managing Physical Security	Fully Complies
Business Continuity Planning	1
Information Resources Security Safeguards	Fully Complies
Security Incidents	Fully Complies
User Security Practices	Fully Complies
Removal of Data from Data Processing Equipment	Fully Complies

Don F. Guyton
Chief Audit Executive
January 19, 2012

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON

PROVOST OFFICE,
ENDOWMENTS

REPORT NO. AR2012-12

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON
PROVOST OFFICE, ENDOWMENTS**

BACKGROUND:

We performed a review of the endowments managed by the Provost Office. Reviews of endowments are scheduled in the annual audit plan over a six year period. This review was scheduled in the annual audit plan for FY 2011.

As of August 31, 2010, the University of Houston System endowment market value was \$442,282,055, consisting of 1,320 separate endowments. Endowment income distributed during fiscal year 2010 was \$12,009,138. The Provost Office had 55 of these endowments with a market value of \$3,120,111 and endowment income distributed during the fiscal year was \$48,384.

OBJECTIVES:

The objectives of our review were as follows:

1. Determine whether the Provost Office is managing endowment funds effectively and efficiently under an adequate system of internal controls.
2. Determine whether the Provost Office is complying with the terms of the endowment agreements and University policies and procedures.

SCOPE OF WORK:

We interviewed personnel responsible for managing endowments, reviewed policies and procedures, reviewed endowment agreements, analyzed expenditure and budget information, reviewed expenditures, and performed other audit procedures, as appropriate.

The scope of this review did not include endowments relating to scholarships administered by the Office of Scholarships and Financial Aid. The management of these endowments was included in the scope of the UH Financial Aid, Scholarships audit.

CONCLUSION:

In our opinion, the Provost Office is managing endowment funds effectively and efficiently and is complying with the terms of the endowment agreements.

Don F. Guyton
Chief Audit Executive
January 19, 2012

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON

FOOTBALL ATTENDANCE
2011 SEASON

REPORT NO. AR2012-13

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON
FOOTBALL ATTENDANCE, 2011 SEASON**

BACKGROUND:

NCAA Bylaw 20.9.7.3 Football–Attendance Requirements [FBS], states that “once every two years on a rolling basis, the institution shall average at least 15,000 in actual or paid attendance for all home football games.”

NCAA Bylaw 20.9.7.3.1.2 Paid Attendance, states that “for purposes of computing paid attendance figures, tickets must be sold for at least one-third of the highest regular established ticket price as established prior to the season, regardless of whether they are used for admission. Tickets sold at less than one-third of the highest regular established price may be counted as paid attendance only if they are used for admission.” The NCAA interpretations of this Bylaw allow students who pay athletic fees to be included in the paid attendance counts if they attend the event.

NCAA Bylaw 20.9.7.3.1.2.1 Student Attendance, states that “student attendance must be verified through one of the following methods:

- (a) Such students are issued tickets that are collected on admission to the game and retained;
- (b) Such students enter through and are counted by a turnstile (which is not used by others in attendance) that is monitored by a representative of the department of athletics who verifies in writing the accuracy of the count on a per-game basis; or
- (c) Such students enter through a gate (which is not used by others in attendance) at which a representative of the department of athletics counts them individually with a manual counter, and the representative provides a written statement verifying the accuracy of the count on a per-game basis.” (**Note:** Method (c) used by UH Athletics.)

NCAA Bylaw 20.9.7.3.1.2.1.1 Noncounted Students, states that “student-athletes and cheerleaders scheduled by the institution to be at the game and students performing services at the stadium (e.g., concessionaries, ticket takers, parking-lot attendants, ushers, groundskeepers) shall not be counted toward meeting the attendance requirements.”

NCAA Bylaw 20.9.7.3.2 Certified Audit, states that “in meeting the football-attendance requirements of the Football Bowl Subdivision, an institution must undertake an annual certified audit verifying its football attendance.”

OBJECTIVE:

The objective of our review was to certify attendance for each home football game as required by NCAA Bylaws.

SCOPE OF WORK:

We reviewed the 2011-12 NCAA Bylaw 20.9.7.3, Football–Attendance Requirements, and interviewed management personnel of the Department of Athletics and worked with the contracted event personnel during the games. We also performed other audit procedures as necessary.

RESULTS:

The table below details paid attendance (as defined by NCAA Bylaws and interpretations) at home games for the 2011 season. The table is a summary of the calculation for paid attendance certified by the Athletics Department and the Internal Auditing Department.

2011 Houston Cougar Football Home Game Season

<u>Date</u>	<u>Opponent</u>	<u>Paid Attendance</u>
9/3/11	UCLA	22,460
9/24/11	Georgia State	22,261
10/8/11	ECU	20,269
10/22/11	Marshall	23,404
10/27/11	Rice	25,209
11/19/11	SMU	25,796
Average Home Game Paid Attendance:		<u>23,233</u>

CONCLUSION:

The average paid attendance for the 2011 Houston Cougar football home game season calculated using the terms and conditions stipulated by the NCAA exceeds the minimum attendance requirements (15,000 per game average).

Don F. Guyton
Chief Audit Executive
January 19, 2012

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON

ACADEMIC AFFAIRS
AND PROVOST
DEPARTMENTAL REVIEWS

REPORT NO. AR2012-14

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON
OFFICE OF ACADEMIC AFFAIRS AND PROVOST
DEPARTMENTAL REVIEWS**

The objective of the Departmental Review is to determine whether departments are conducting financial and administrative activities in compliance with university policies. We performed eight departmental reviews in the Office of Academic Affairs and Provost. We conducted interviews, reviewed documentation, and performed other audit procedures, as necessary, in testing compliance with various policies for each compliance area. We noted no matters that we considered to be significant engagement observations. We noted that the Office of Academic Affairs and Provost was not in compliance with certain policies. Management agreed to implement an action plan for an area of non-compliance and informed us that it would take the necessary actions in order to help prevent reoccurrences of similar instances of non-compliance with university policies.

The attachments listed below contain additional information related to the departmental reviews and the Division:

- Compliance Matrix
- Action Plan
- Instances of Non-Compliance
- Division Background
- Financial Summary of Transactions

Don F. Guyton
Chief Audit Executive
January 19, 2012

**University of Houston System
Internal Auditing Department**

**University of Houston
Office of Academic Affairs and Provost
Departmental Reviews**

Compliance Area	Provost Business Office	Admissions, OSFA & Welcome Center	Charter School	Cinco Ranch
Management Oversight	✓	✓	✓	✓
Operational Activities	NA	N/A	N/A	N/A
Policies, Procedures, Required Training, and Reporting	✓	✓	(1)	(1)
Cost Center Management	✓	✓	✓	✓
Payroll	✓	✓	(1)	(1)
Human Resources	✓	✓	(1)	✓
Change Funds and Cash Receipts	✓	✓	(1)	(1)
Procurement and Travel Cards	(1)	(2)	(1)	✓
Departmental Expenses	✓	(1)	✓	(1)
Contract Administration	(1)	(1)	✓	✓
Property Management	✓	✓	✓	✓
Departmental Computing	✓	✓	✓	✓
Scholarships	✓	✓	N/A	N/A
Incidental and Lab Fees	N/A	N/A	N/A	N/A
Research	✓	N/A	✓	N/A

- ✓ **Fully Complies**
- ⊖ **Opportunity for Improvement**
- () **Number of Instances of Non-Compliance**
- N/A **Not Applicable**

**University of Houston System
Internal Auditing Department**

**University of Houston
Office of Academic Affairs and Provost
Departmental Reviews**

Compliance Area	Educational Technology & University Outreach	EMS, EM Product Support & RAR	Houston Public Media	Sugarland
Management Oversight	✓	✓	✓	✓
Operational Activities	✓	N/A	N/A	N/A
Policies, Procedures, Required Training, and Reporting	(1)	✓	(1)	(1)
Cost Center Management	✓	✓	(1)	✓
Payroll	✓	✓	✓	(1)
Human Resources	✓	✓	✓	✓
Change Funds and Cash Receipts	✓	(1)	✓	✓
Procurement and Travel Cards	✓	(1)	(1)	✓
Departmental Expenses	(1)	(1)	✓	✓
Contract Administration	✓	✓	✓	✓
Property Management	✓	✓	✓	✓
Departmental Computing	✓	✓	✓	✓
Scholarships	✓	N/A	N/A	✓
Incidental and Lab Fees	N/A	N/A	N/A	N/A
Research	N/A	N/A	✓	N/A

- ✓ **Fully Complies**
- Ø **Opportunity for Improvement**
- () **Number of Instances of Non-Compliance**
- N/A **Not Applicable**

UNIVERSITY OF HOUSTON
OFFICE OF ACADEMIC AFFAIRS AND PROVOST
SUMMARY OF REVENUES AND EXPENDITURES

<u>Account</u>	<u>Description</u>	<u>FY 2011</u>	<u>FY 2010</u>
<u>Revenue</u>			
40100-40299	Student Tuition	\$ 2,278	\$ 0
40300-40499	Designated Tuition	(1,835,451)	(1,664,323)
40700-40999	Other Fees	(5,723,933)	(8,972,924)
55500-55999;56700-57999	Waivers & Expenses	844,718	715,930
41600-41899	Federal Grants & Contracts	(254,168,089)	(123,473,516)
41900-42099	Federal Pass Through Grants/Contracts	(46,662)	(37,415)
42100-42299	State Grants & Contracts	(3,994,185)	(2,306,583)
42300-42499	State Pass Through - Other State Agencies	(22,433,042)	(25,280,477)
42700-43199; 44400-44428; 44440	Private Gifts, Grants and Cont	(28,167,507)	(20,537,005)
43500-43599	Endowment Income Distribution	(2,301,762)	(2,471,538)
43600-43630; 43634-43999	Sales & Services - E & G	(1,671,204)	(793,357)
43631-43633; 44000-44399	Sales & Services - Auxiliary	19,350	0
44429-44439; 44441-45999; 49504	Other Revenue Sources	(541,462)	(2,098,482)
50050-50099	Recovered Costs	0	(1,330)
Total Revenue		<u>\$ (320,016,951)</u>	<u>\$ (186,921,020)</u>
<u>Cost of Goods Sold</u>			
50000-50049	Cost of Goods Sold	\$ (2,272)	\$ 0
Total Cost of Goods Sold		<u>\$ (2,272)</u>	<u>\$ 0</u>
<u>Payroll</u>			
50100-50999	Salaries & Wages	\$ 25,677,742	\$ 25,815,575
51000-51399	Fringe Benefits	3,726,036	3,400,231
51400-51999	Claims & Payment	87,948	0
Total Payroll		<u>\$ 29,491,726</u>	<u>\$ 29,215,807</u>
<u>M & O</u>			
52000-52199	Professional Services	\$ 490,911	\$ 648,929
52200-52399	General Services	869,620	1,303,925
52400-52499	Academic Service	482,625	312,940
52500-52599	Printing, Copying, & Reproduction	705,281	827,109
52600-52799	Utilities & Sanitation	350,666	397,836
52800-52999	Communication & Transportation	1,417,318	1,422,330
53000-53499	Advertising Promotion & Public	1,564,352	1,354,234
53500-53599	Rental Lease & Royalties	4,557,171	4,015,995
53600-53699	Maintenance	0	120
53700-53799	Routine Repair	308,257	368,248
53800-53849	Pass Through	11,859	0
53850-53899	Contracting Services	985,929	1,039,400
53900-53999	General Supplies	560,196	626,898
54000-54099	Lab Research Supplies	4,308	4,569
54200-54299	Construction Expenses	15,860	9,697
54300-54349	Facilities & Ground Support	15,539	9,524
54350-54449	Parts & Furnishing	661,637	494,729
54450-54549	Misc Supplies & Material	25,799	27,325
54550-54699	Legal Services	192,731	64,239
54700-54799	Financial Tax & License Cost	320,704	319,332
54800-54899	Other Recurring Expenses	1,147,484	1,139,247
54900-54999	Employee Expenses	195,059	206,478
55000-55199	Special Program & Events	241,158	199,394
55300-55499	Financial Aid	315,226,993	185,101,879
56000-56499	Travel	309,418	417,300
56500-56599	Contracts & Grants	50,317	38,450
Total M&O		<u>\$ 330,711,194</u>	<u>\$ 200,350,128</u>
<u>Capital Outlay</u>			
58000-58999	Capital Outlay	\$ 10,601,044	\$ 815,696
Total Capital Outlay		<u>\$ 10,601,044</u>	<u>\$ 815,696</u>
Total Cost of Goods Sold, Payroll, M&O and Capital Outlay		<u>\$ 370,801,692</u>	<u>\$ 230,381,631</u>

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UH OFFICE OF ACADEMIC AFFAIRS AND PROVOST
DEPARTMENTAL REVIEWS
INSTANCES OF NON-COMPLIANCE**

We brought the following instances of non-compliance to management's attention in order that it could take appropriate action. We recommended and management agreed to implement an action plan to address the area of non-compliance indicated by an asterisk below. In addition, management informed us that it would take the necessary actions in order to help prevent reoccurrences of similar instances of non-compliance with the remaining areas listed below.

PROVOST BUSINESS OFFICE

Procurement and Travel Cards

- An expense report was not signed by the preparer and approved by the certifying signatory by the 20th of the month.

Contract Administration

- A contract and cover sheet were not signed prior to the contract effective date.

ADMISSIONS, OFFICE OF SCHOLARSHIPS AND FINANCIAL AID & WELCOME CENTER

Procurement and Travel Cards

- Expense reports were not approved by the certifying signatories by the 20th of the month.
- A card contained a liability account balance at fiscal year-end.

Departmental Expenses

- Travel Request Forms were not timely approved.

Contract Administration

- A contract cover sheet was not timely signed.

CHARTER SCHOOL

Policies, Procedures, Required Training and Reporting

- Required annual training was not completed by all employees.

Payroll

- An employee worked additional hours after signing and dating their time and effort report.

Human Resources

- A terminating ePAR was not completed timely.

Change Funds and Cash Receipts

- A check was not made payable to the University of Houston.

Procurement and Travel Cards

- An expense report was not approved by the certifying signatory by the 20th of the month.

CINCO RANCH**Policies, Procedures, Required Training and Reporting**

- Required role-based training was not completed by all applicable employees.

Payroll

- An employee worked additional hours after signing and dating their time and effort report.

Change Funds and Cash Receipts

- A deposit exceeding \$100 was not made within one working day of receipt.

Departmental Expenses

- A travel related expense reimbursement was coded as an entertainment expense.

EDUCATIONAL TECHNOLOGY & UNIVERSITY OUTREACH**Policies, Procedures, Required Training and Reporting**

- Required disclosure forms were not completed by all applicable employees.

Departmental Expenses

- A Travel Request Form was not timely approved.

**ENROLLMENT MANAGEMENT SERVICES, ENROLLMENT MANAGEMENT
PRODUCT SUPPORT & REGISTRATION AND ACADEMIC RECORDS****Change Funds and Cash Receipts**

- Bank routing and account numbers were not removed/obliterated from copies of deposited checks uploaded to PeopleSoft.

Procurement and Travel Cards

- Cards contained liability account balances at fiscal year-end.

Departmental Expenses

- A travel related expense reimbursement was not processed timely.

HOUSTON PUBLIC MEDIA**Policies, Procedures, Required Training and Reporting**

- Required annual training was not completed by all employees.

Cost Center Management

- A plan to address deficit fund groups was not submitted to the Executive Vice President for Administration and Finance for approval.*

Procurement and Travel Cards

- An expense report was not signed by the cardholder by the 20th of the month.

SUGARLAND**Policies, Procedures, Required Training, and Reporting**

- Required role-based training was not completed by all applicable employees.

Payroll

- Employees worked additional hours after signing and dating their time and effort reports and, in certain instances, after they were approved by the employee's supervisor.

**University of Houston System
Internal Auditing Department**

**University of Houston
Office of Academic Affairs and Provost
Background Information**

Background provided by the Office of Academic Affairs and Provost:

Departments within the Division of Academic Affairs include: Office of the Provost, Academic and Faculty Affairs, Academic Budgets and Administration, Enrollment Management Services, Continuing Education, Education Technology and University Outreach, Public Broadcasting, Charter School, Sugar Land Center, and Cinco Ranch.

The Division of Academic Affairs provides oversight, guidance, and support for:

- Academic policies and procedures
- Faculty appointments
- Promotion and tenure
- Learning support and instructional delivery support to faculty (online and classroom)
- Student recruitment and retention
- Student financial aid
- Online student services
- Student academic records
- International education
- Institutional research
- Quality academic access for southwest Houston region
- Charter School (K-5)
- Houston Public Media
- College business operations (financial/administrative)

Budget/Financial Summary:

During fiscal year 2012, with a staff of 474 FTE, the Division administered 971 cost centers with an operating M&O budget of \$63,557,656.

The following table presents the fund balance reconciliation for the Division for FY 2011:

Beginning Fund Balance (9/1/2010)	\$ 37,808,009
Revenues	320,016,951
Expenditures	(370,801,692)
Transfers/Other	65,850,904
Ending Balance (8/31/2011)	<u>\$ 52,874,172</u>

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT
EXTERNAL PEER REVIEW**

BACKGROUND: The Texas Internal Auditing Act establishes guidelines for a program of internal auditing at all state agencies. The internal auditing program is required to conform to the Standards for the Professional Practice of Internal Auditing (Standards) as promulgated by the Institute of Internal Auditors and generally accepted governmental auditing standards. The Standards require the internal auditor to take part in a comprehensive external peer review every five years. Generally accepted governmental auditing standards state that these reviews should be conducted at least once every three years. The Standards state that these reviews should be conducted by qualified persons who are independent of the organization and have a high level of competence and experience in the internal auditing profession. Upon completion of the external review, the review team should issue a formal report and an opinion as to whether the department is in compliance with the Standards. The report will contain recommendations for improvement, where appropriate, and responses from the Chief Audit Executive that include an action plan and an implementation date. This report will be presented to management and the Board of Regents and will be included in the Annual Internal Audit Activity Report which is filed with the Office of the Governor, Legislative Budget Board, State Auditor's Office, and Sunset Advisory Commission. The external peer review is scheduled to take place during the week of May 14, 2012. The Chief Audit Executives of three institutions were asked to participate on the peer review team.

PEER REVIEW TEAM MEMBERS: I am pleased that the following individuals have agreed to serve on the peer review team of the University of Houston System Internal Auditing Department. These individuals have agreed to volunteer their time to perform the peer review without compensation. They will be reimbursed for out of pocket expenses, including travel expenses.

Sabrina Hearn, CPA, CIA, General Auditor for The University of Alabama System

In her capacity as General Auditor, Sabrina oversees the internal audit operations at The University of Alabama (UA), the University of Alabama at Birmingham (UAB), the University of Alabama in Huntsville (UAH) and the UAB Health System (UABHS). She coordinates external audit activities on behalf of the Audit Committee of the Board of Trustees.

Ms. Hearn joined the UAS audit team in 1998. She recently served as the Director for Internal Audit for UAB and UABHS. Prior to joining the UAS audit team, Sabrina had twenty years of experience in financial management in the public accounting, healthcare, manufacturing, construction and scrap metals recycling industries.

Sabrina earned her BS degree from UA and her MBA from UAB, and holds numerous professional certifications and memberships.

Toni Messer, CPA, CIA, Executive Director of Audit and Compliance at The University of Texas at Dallas (UTD).

Toni worked for the Texas State Auditor's Office. She received her BBA degree in Accounting from Texas A&M University. She has over 25 years of experience auditing institutions of higher education.

Toni is currently the Association of College and University Auditors (ACUA) President and has also been a board member, the Professional Education Chair, and the Annual Conference Director. Toni is active with the Dallas Institute of Internal Auditors (IIA) on the board and on the certifications committee. She has worked with the UTD Internal Auditing Education Partnership (IAEP) Program since 2003 by giving presentations to students, mentoring them, and providing them with experience working on actual audits. She is also a member of the UTD School of Management IAEP Advisory Board. Honors include the ACUA Excellence in Service Award and the Dallas Chapter of the IIA Aaron Saylor's Award for Outstanding Contribution to the Chapter. She has been performing quality assurance reviews on higher education institutions for over 15 years.

Brian Mikell, CPA, is the Chief Audit Executive for the Office of Audit and Compliance Review at the University of Florida.

Brian has been with the university and the Office of Audit and Compliance Review since April 2004, serving as CAE since February 2009. Prior to joining UF, Brian was employed by the Florida Auditor General's Office for 22 years where he served in various positions, including the Audit Coordinator supervising the financial statement, federal and operational audits of UF.

As Chief Audit Executive, Brian administers the activities of the university's internal auditing office, which serves as a central point for activities that promote accountability, integrity and efficiency for the University of Florida.

Brian is a Certified Public Accountant and has a Bachelor's degree in Accounting from the University of Florida. Brian is a member of the North Central Florida Chapter of Institute of Internal Auditors, currently serving as treasurer. He is also a member of the Association of College and University Auditors.

UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Audit and Compliance

ITEM: Report on Board of Regents' Internal Audit, Institutional Compliance, and Identity Theft Prevention Policies

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Audit & Compliance Committee Planner, item number 3.03, requires an annual review of the Board of Regents' policies on Internal Audit, Institutional Compliance, and Identity Theft. There have been no suggested changes to these policies since they were reviewed by the Audit & Compliance Committee on February 16, 2011.

The Board of Regents' Internal Audit, Institutional Compliance, and Identity Theft Prevention Policies can be found on the Board of Regents web page at

<http://www.uhsa.uh.edu/board-of-regents/documents/policies/SECTION%20V.Table%20of%20Contents.pdf>

SUPPORTING

DOCUMENTATION: Board of Regents' Internal Audit and Institutional Compliance Policies

FISCAL NOTE: None

RECOMMENDATION/
ACTION REQUESTED: Information

COMPONENT: University of Houston System

CHIEF AUDIT EXECUTIVE

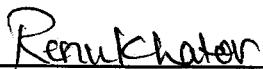


Don Guyton

DATE

1/25/12

CHANCELLOR



Renu Khator

DATE

1/31/12

02/15/12

AUDIT - H-102

SECTION V—AUDIT AND COMPLIANCE

41 AUDIT AND COMPLIANCE

41.01 Internal Auditing

To develop a framework for the implementation of the internal audit function within the system, and to define the scope of the internal audit function as an effective management tool for use by the chancellor and the board in evaluating the system's fiscal integrity and compliance with the Texas Internal Auditing Act, Texas Government Code, Section 2102, applicable state and federal laws and with approved board policies, the board adopts the following policy:

41.01.1 Philosophy

- A. A primary responsibility of the board is to ensure the legal and fiscal integrity of the system. To that end, the board directs the Department of Internal Auditing to perform those audit activities necessary to assure that the system's resources are being properly managed and accounted for and that the institution is complying with approved policies and statutory requirements.
- B. Internal audits are resource tools for management and enable the system to monitor the effectiveness with which policies are followed, objectives met, and control systems function.
- C. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the system's operations. It helps the system accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- D. The Department of Internal Auditing will be free of all operational and management responsibilities that would impair the ability to make independent reviews of all aspects of the system.
- E. In carrying out their duties and responsibilities, members of the Department of Internal Auditing will have full, free, and unrestricted access to all system activities, records, property, and personnel. The Internal Auditing Department may also request access to the financial records of private support organizations and foundations chartered for the benefit of the University of Houston System or any part thereof.

41.01.2 Organizational Responsibility

- A. The Chief Audit Executive will report directly to the chair of the Audit and Compliance Committee of the board, and have access to the chancellor.
- B. The board is responsible for the employment and dismissal of the Chief Audit Executive; however, the chancellor has the authority to make recommendations to the board on the employment, evaluation, and dismissal of the Chief Audit Executive.
- C. The Department of Internal Auditing will perform its duties in accordance with the Standards for the Professional Practice of Internal Auditing, the Code of Professional Ethics, as established by the Institute of Internal Auditors, and generally accepted government auditing standards.

41.01.3 The Internal Auditing Process

- A. In August of each year, the Department of Internal Auditing will present to the Audit and Compliance Committee a long-range audit plan and an annual audit plan for the Board's review and approval. This plan will include a summary of the resources dedicated to the Internal Audit program in order for the board to determine if adequate resources exist to ensure that risks identified in the annual risk assessment are adequately covered within a reasonable time frame.
- B. The Chief Audit Executive will meet with the chancellor on a regular basis to review audits performed, audits in progress, future audits, and special investigations.
- C. The Chief Audit Executive will meet with the chair of the Audit and Compliance Committee on a regular basis to review audits performed, audits in progress, future audits, and special investigations.
- D. Internal Audit reports will be distributed to the Chancellor, members of the Board of Regents, the State Auditor, the Governor's Office of Planning and Budgeting, the Legislative Budget Board and the Sunset Advisory Commission, as required by the Texas Government Code, Section 2102.

41.01.4 Objectives

The internal audit activity evaluates and contributes to the improvement of the system's risk management, control and governance systems by addressing the following objectives:

A. **Risk Management:** Internal audit activity will assist the system by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

B. **Control:** Internal audit activity will assist the system in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

C. **Governance:** Internal audit activity will contribute to the system's governance process by evaluating and improving the process through which (1) values and goals are established and communicated, (2) the accomplishment of goals is monitored, (3) accountability is ensured, and (4) values are preserved.

D. The internal audit activity will evaluate risk exposures and adequacy and effectiveness of controls relating to the system's governance, operations and information systems regarding the

- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations
- Safeguarding of assets
- Compliance with laws, regulations, and contracts.

E. The Internal Audit Department will coordinate audit efforts with those of external CPA firms and the state auditor's office. (02/16/11)

Related Statutes, Policies, or Requirements

Texas Government Code § 321.0136 – *Investigation*

Texas Government Code, Chapter 2102 – *Texas Internal Auditing Act*

The Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing and Code of Ethics - <http://www.theiia.org/guidance/standards-and-guidance/ippf/>.

U.S. Government Accountability Office, Government Auditing Standards (The Yellow Book) - <http://www.gao.gov/new.items/d07731g.pdf>.

System Administrative Memoranda (SAMs)

01.C.04 – *Reporting/Investigating Fraudulent Acts*

04.A.01 – *Audits by External Auditors*

04.A.02 – *Audits by Internal Auditing*

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42 COMPLIANCE

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. Accordingly, the System-wide Compliance Officer prepares an executive summary of all institutional compliance activity of the component institutions.

42.01.1 System-Wide Compliance Officer

The System-wide Compliance Officer is responsible, and will be held accountable for, apprising the Chancellor and the Audit and Compliance Committee of the institutional compliance functions and activities at each of the component institutions as set out in Subparagraph B, below. The System-wide Compliance Officer provides institutional compliance assistance to the Chancellor and the Vice Chancellors in the exercise of their responsibilities.

A. Appointment: The System-wide Compliance Officer shall be appointed by the Chancellor. The System-wide Compliance Officer is the senior compliance official of The University of Houston System, provides assistance and advice covering all component compliance programs, and shall hold office without fixed term, subject to the pleasure of the Chancellor.

B. Duties and Responsibilities: The primary responsibilities of the System-wide Compliance Officer include developing an infrastructure for the effective operation of The University of Houston System Institutional Compliance Program; chairing the System-wide Compliance Officers Council; and prescribing the format for the annual risk-based compliance plan and the quarterly compliance status reports to be submitted by each component institution.
(02/16/11)

Texas Education Code § 51.971 – Compliance Program

42.02 Identity Theft Prevention Program

The Chancellor, as Chief Executive Officer of the System, is responsible for ensuring the implementation of an identity theft prevention program which adheres to the Federal Trade Commission's Red Flag Rule under sections 114 and 315 of the Federal Fair and Accurate Credit Transactions Act. At least annually, the System-

02/15/12

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wide compliance officer prepares an executive summary of all activities of the Identity Theft Prevention Programs of the component institutions. (02/16/11)

Federal Fair and Accurate Credit Transactions Act, Pub.L. 108-159.
Federal Trade Commission Red Flag Rule, 16 C.F.R. § 681.2.

System Administrative Memoranda (SAMs)
01.C.14 – Identity Theft

UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Audit and Compliance

ITEM: Report on UHS Annual Financial Statements/Certifications

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Audit & Compliance Committee Planner, item number 3.13, requires that the UH System Chancellor and UH System 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.

Included in the report are the following key points:

- Financial Certification Process (page 1)
- UH/UHS Certification Letter (page 2)
- UHCL Certification Letter (page 5)
- UHD Certification Letter (page 7)
- UHV Certification Letter (page 9)

SUPPORTING

DOCUMENTATION: Financial Statements Certification Letters – FY 2011 (all components) and Financial Certification Process

FISCAL NOTE: None

RECOMMENDATION/
ACTION REQUESTED: Information

COMPONENT: University of Houston System

CHIEF AUDIT EXECUTIVE

Don Guyton

Don Guyton

DATE

1/25/12

CHANCELLOR

Renu Khator

Renu Khator

DATE

1/31/12

~~02/15/12~~

AUDIT – I-108

Financial Certification Process

- UH-Clear Lake, UH-Downtown, and UH-Victoria Chief Accounting Officers, Chief Financial Officers, and Presidents certified that the financial reports for their campus are true and correct to the best of their knowledge.
- University of Houston and UH System Administration administrators and unit heads representing 143 departments completed the FY11 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 are adequate to ensure that the financial transactions created for FY11 by UH/UHSA departments are true and correct.
- Mike Glisson (Controller), David Ellis (Executive Director of Financial Reporting), Tom Ehardt (Associate VC/VP of Finance), Carl Carlucci (Executive VC/VP of Administration and Finance), and Renu Khator (Chancellor/President) signed the Certification Letter for UH, UHSA, and UH System Consolidated based on:
 - Department surveys, which indicate internal controls are adequate within UH and UHSA departments to ensure correct financial transactions.
 - Certifications signed by UHCL, UHD, and UHV representatives.
 - Their knowledge and review of the FY11 Annual Financial Report for UH, UHSA, and UH System Consolidated.
- The certification letters are presented at the February Board of Regents meeting.

02/15/12

AUDIT – I-109

University of Houston, UH System Administration, and UH System Certification Letter

December 5, 2011

Ms. Nandita V. Berry
Chair, Audit and Compliance Committee
UH System Board of Regents
128 E. Cullen
Houston, TX 77204-6001

Pursuant to the UH System Board of Regents Audit Committee Charter and Checklist, the following representations are presented in connection with the preparation of financial statements and footnote information for the University of Houston, UH System Administration, and UH System as a whole for the period ended August 31, 2011.

Management Representations Related to Financial Statements

I have reviewed the financial statements of the University of Houston, UH System Administration, and UH System as a whole and I confirm, to the best of my knowledge and belief, the following representations made to you relating to the preparation of these financial statements and footnote information.

1. To the best of my knowledge, the financial statements and footnote information are fairly presented in conformity with generally accepted accounting principles except where the State Comptroller's reporting requirements have instructed us to deviate.
2. University management is responsible for compliance with the state and federal laws and regulations, the State Comptroller's reporting requirements, and the University of Houston System reporting guidelines communicated by the Office of the Executive Vice Chancellor for Administration and Finance or designee.
3. University management is responsible for establishing and maintaining internal controls over financial reporting. Internal Control is a process, effected by the Board of Regents, administration and management, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.
4. To the best of my knowledge, all significant deficiencies in the design or operation of internal controls over financial reporting which could adversely affect UH System's ability to record, process, summarize, and report financial data and any material weaknesses in internal controls that have been identified for UH System have been appropriately reported and addressed.

02/15/12

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AUDIT - T-110

5. To the best of my knowledge, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices other than those reported to the Office of the Executive Vice Chancellor for Administration and Finance in writing (if any).
6. To the best of my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
7. To the best of my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the University of Houston, UH System Administration, and UH System consolidated of, and for, the periods presented in this report. (Materiality is defined as a $\pm 5\%$ or greater error on revenues, expenses, assets, liabilities, or net assets.)
8. To the best of my knowledge, there are no unasserted claims or assessments that the Office of General Counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies other than those reported to the Office of the Executive Vice Chancellor for Administration and Finance in writing (if any).
9. To the best of my knowledge, there has been no –
 - a. Fraud, whether or not material, involving management or employees who have significant roles in internal control, that has not been appropriately reported and addressed; or
 - b. Fraud involving others that could have a material effect on the financial statements other than those reported to the Office of the Executive Vice Chancellor for Administration and Finance in writing (if any).
10. To the best of my knowledge, from August 31, 2011 through the date of this letter, there have been no subsequent events that have had or may have a material effect on the financial position or the revenues, expenses, and other changes in net assets as shown in the aforementioned financial statements.

Michael J. Glisson

Mr. Mike Glisson

Controller, University of Houston

12-5-11

Date

David J. Ellis

Mr. David Ellis

Executive Director of Financial Reporting, University of Houston

12-5-11

Date

02/15/12

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Tom Ehardt

Mr. Tom Ehardt

Associate Vice Chancellor of Finance,
UH System
Associate Vice President of Finance,
University of Houston

12-7-2011

Date

Dr. Carl Carlucci

Dr. Carl Carlucci

Executive Vice Chancellor of
Administration & Finance, UH System
Executive Vice President of
Administration & Finance, University
of Houston

12/8/2011

Date

Renu Khator

Dr. Renu Khator

Chancellor, UH System
President, University of Houston

12/13/11

Date

02/15/12

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AUDIT - I-112

UH-Clear Lake Certification Letter

November 17, 2011

Ms. Nandita V. Berry
Chair, Audit and Compliance Committee
UH System Board of Regents
128 E. Cullen
Houston, TX 77204-6001

Pursuant to the UH System Board of Regents Audit Committee Charter and Checklist, the following representations are presented in connection with the preparation of UH-Clear Lake financial statements and footnote information for the period ended August 31, 2011.

Management Representations Related to Financial Statements

I have reviewed the financial statements of UH-Clear Lake and I confirm, to the best of my knowledge and belief, the following representations made to you relating to the preparation of UH-Clear Lake financial statements and footnote information.

1. To the best of my knowledge, the financial statements and footnote information are fairly presented in conformity with generally accepted accounting principles except where the State Comptroller's reporting requirements have instructed us to deviate.
2. University management is responsible for compliance with the state and federal laws and regulations, the State Comptroller's reporting requirements, and the University of Houston System reporting guidelines communicated by the Office of the Executive Vice Chancellor for Administration and Finance or designee.
3. University management is responsible for establishing and maintaining internal controls over financial reporting. Internal Control is a process, effected by the Board of Regents, administration and management, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.
4. To the best of my knowledge, all significant deficiencies in the design or operation of internal controls over financial reporting which could adversely affect UH-Clear Lake's ability to record, process, summarize, and report financial data and any material weaknesses in internal controls that have been identified for UH-Clear Lake have been appropriately reported and addressed.
5. To the best of my knowledge, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices other than those reported to the Office of the Executive Vice Chancellor for Administration and Finance in writing (if any).

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Page 1 of 2
AUDIT 1-113

6. To the best of my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
7. To the best of my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of UH-Clear Lake as of, and for, the periods presented in this report. (Materiality is defined as a $\pm 5\%$ or greater error on revenues, expenses, assets, liabilities, or net assets.)
8. To the best of my knowledge, there are no unasserted claims or assessments that the Office of General Counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies other than those reported to the Office of the Executive Vice Chancellor for Administration and Finance in writing (if any).
9. To the best of my knowledge, there has been no –
 - a. Fraud, whether or not material, involving management or employees who have significant roles in internal control, that has not been appropriately reported and addressed; or
 - b. Fraud involving others that could have a material effect on the financial statements other than those reported to the Office of the Executive Vice Chancellor for Administration and Finance in writing (if any).
10. To the best of my knowledge, from August 31, 2011 through the date of this letter, there have been no subsequent events that have had or may have a material effect on the financial position or the revenues, expenses, and other changes in net assets as shown in the aforementioned financial statements.

	<i>John F. Cordary</i>	<u>11/22/11</u>
Mr. John Cordary	Associate Vice President of Finance, UH-Clear Lake	Date

	<i>Michelle Dotter</i>	<u>11/22/11</u>
Ms. Michelle Dotter	Vice President of Administration and Finance, UH-Clear Lake	Date

	<i>William A. Staples</i>	<u>11/29/11</u>
Dr. William Staples	President, UH-Clear Lake	Date

02/15/12

Page 2 of 2
AUDIT - 1-114

UH Downtown Certification Letter

November 17, 2011

Ms. Nandita V. Berry
Chair, Audit and Compliance Committee
UH System Board of Regents
128 E. Cullen
Houston, TX 77204-6001

Pursuant to the UH System Board of Regents Audit Committee Charter and Checklist, the following representations are presented in connection with the preparation of UH Downtown's financial statements and footnote information for the period ended August 31, 2011.

Management Representations Related to Financial Statements

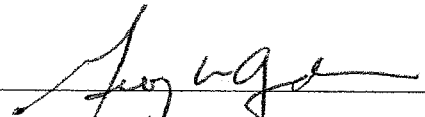
I have reviewed the financial statements of UH Downtown and I confirm, to the best of my knowledge and belief, the following representations made to you relating to the preparation of the UH Downtown's financial statements and footnote information.

1. To the best of my knowledge, the financial statements and footnote information are fairly presented in conformity with generally accepted accounting principles except where the State Comptroller's reporting requirements have instructed us to deviate.
2. University management is responsible for compliance with the state and federal laws and regulations, the State Comptroller's reporting requirements, and the University of Houston System reporting guidelines communicated by the Office of the Executive Vice Chancellor for Administration and Finance or designee.
3. University management is responsible for establishing and maintaining internal controls over financial reporting. Internal Control is a process, effected by the Board of Regents, administration and management, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.
4. To the best of my knowledge, all significant deficiencies in the design or operation of internal controls over financial reporting which could adversely affect UH Downtown's ability to record, process, summarize, and report financial data and any material weaknesses in internal controls that have been identified for UH Downtown have been appropriately reported and addressed.
5. To the best of my knowledge, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices other than those reported to the Office of the Executive Vice Chancellor for Administration and Finance in writing (if any).

02/15/12

AUDIT Page 1 of 2 P-15

6. To the best of my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
7. To the best of my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of UH Downtown as of, and for, the periods presented in this report. (Materiality is defined as a $\pm 5\%$ or greater error on revenues, expenses, assets, liabilities, or net assets.)
8. To the best of my knowledge, there are no unasserted claims or assessments that the Office of General Counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies other than those reported to the Office of the Executive Vice Chancellor for Administration and Finance in writing (if any).
9. To the best of my knowledge, there has been no –
 - a. Fraud, whether or not material, involving management or employees who have significant roles in internal control, that has not been appropriately reported and addressed; or
 - b. Fraud involving others that could have a material effect on the financial statements other than those reported to the Office of the Executive Vice Chancellor for Administration and Finance in writing (if any).
10. To the best of my knowledge, from August 31, 2011 through the date of this letter, there have been no subsequent events that have had or may have a material effect on the financial position or the revenues, expenses, and other changes in net assets as shown in the aforementioned financial statements.

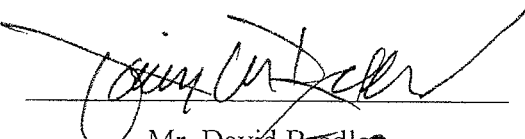


 Mr. George Anderson

 Assistant Vice President of Business
 Affairs, UH Downtown

11/10/11

 Date




 Mr. David Bradley

 Vice President of Administration and
 Finance, UH Downtown

11/21/2011

 Date



 Dr. William Flores

 President, UH Downtown

11/29/2011

 Date

02/15/12

AUDIT Page 2 of 16

UH Victoria Certification Letter

November 17, 2011

Ms. Nandita V. Berry
Chair, Audit and Compliance Committee
UH System Board of Regents
128 E. Cullen
Houston, TX 77204-6001

Pursuant to the UH System Board of Regents Audit Committee Charter and Checklist, the following representations are presented in connection with the preparation of the UH Victoria's financial statements and footnote information for the period ended August 31, 2011.

Management Representations Related to Financial Statements

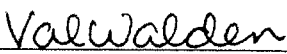
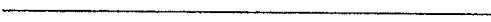
I have reviewed the financial statements of UH Victoria and I confirm, to the best of my knowledge and belief, the following representations made to you relating to the preparation of the UH Victoria's financial statements and footnote information.

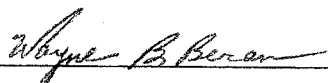

1. To the best of my knowledge, the financial statements and footnote information are fairly presented in conformity with generally accepted accounting principles except where the State Comptroller's reporting requirements have instructed us to deviate.
2. University management is responsible for compliance with the state and federal laws and regulations, the State Comptroller's reporting requirements, and the University of Houston System reporting guidelines communicated by the Office of the Executive Vice Chancellor for Administration and Finance or designee.
3. University management is responsible for establishing and maintaining internal controls over financial reporting. Internal Control is a process, effected by the Board of Regents, administration and management, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.
4. To the best of my knowledge, all significant deficiencies in the design or operation of internal controls over financial reporting which could adversely affect UH Victoria's ability to record, process, summarize, and report financial data and any material weaknesses in internal controls that have been identified for UH Victoria have been appropriately reported and addressed.
5. To the best of my knowledge, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices other than those reported to the Office of the Executive Vice Chancellor for Administration and Finance in writing (if any).

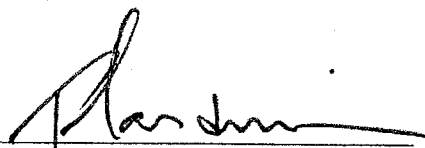

02/15/12

AUDIT - I-117

6. To the best of my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
7. To the best of my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of UH Victoria as of, and for, the periods presented in this report. (Materiality is defined as a $\pm 5\%$ or greater error on revenues, expenses, assets, liabilities, or net assets.)
8. To the best of my knowledge, there are no unasserted claims or assessments that the Office of General Counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies other than those reported to the Office of the Executive Vice Chancellor for Administration and Finance in writing (if any).
9. To the best of my knowledge, there has been no –
 - a. Fraud, whether or not material, involving management or employees who have significant roles in internal control, that has not been appropriately reported and addressed; or
 - b. Fraud involving others that could have a material effect on the financial statements other than those reported to the Office of the Executive Vice Chancellor for Administration and Finance in writing (if any).
10. To the best of my knowledge, from August 31, 2011 through the date of this letter, there have been no subsequent events that have had or may have a material effect on the financial position or the revenues, expenses, and other changes in net assets as shown in the aforementioned financial statements.

 _____	 _____	<u>11/17/11</u>
Ms. Val Walden	Comptroller, UH Victoria	Date

 _____	 _____	<u>11-17-11</u>
Mr. Wayne Beran	Vice President of Administration and Finance, UH Victoria	Date

 _____	 _____	<u>11/15/11</u>
Dr. Philip Castille	President, UH Victoria	Date

02/15/12

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