



UNIVERSITY OF HOUSTON SYSTEM

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MEMORANDUM

TO: Board of Regents

FROM: Don F. Guyton
Chief Audit Executive

DATE: April 20, 2012

SUBJ: Internal Audit Activity - Briefing Booklet for May 16, 2012, Audit & Compliance Committee Meeting

Attached for your information is a briefing booklet describing the activities of the Internal Auditing Department since the February 15, 2012, meeting of the Audit & Compliance Committee of the Board of Regents. 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**:

- AR2012-15 Follow-up Status Report
- AR2012-16 Construction Award Status Report
- AR2012-17 UH Texas Learning & Computation Center
- AR2012-18 UH Non-College Specific, Endowments
- AR2012-19 UH Hilton Hotel
- AR2012-20 UHV Information Security Standards
- AR2012-21 UHCL Information Security Standards
- AR2012-22 UHV President's Office, Departmental Review
- AR2012-23 UH System Administration, Endowments
- AR2012-24 UH National Research University Fund
- AR2012-25 UH Athletics, NCAA Rules-Compliance
- AR2012-26 UHV School of Arts & Sciences, Departmental Reviews
- AR2012-27 UHV School of Education and Human Development, Departmental Review
- AR2012-28 UHV School of Business Administration, Departmental Review
- AR2012-29 Internal Quality Assurance Review of Internal Auditing

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 ~ UH-Clear Lake ~ UH-Downtown ~ UH-Victoria

UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT

BOARD OF REGENTS
AUDIT & COMPLIANCE COMMITTEE
MEETING

INTERNAL AUDIT BRIEFING
MATERIALS

May 16, 2012

**University of Houston System
Internal Auditing Department**

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

Internal Audit Briefing Materials

May 16, 2012

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2. Internal Audit Report Executive Summaries
3. Summary of Recommendations by Area
4. Management Action Plans
5. Internal Audit Reports

**University of Houston System
Internal Auditing Department**

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

**ACTIVITY OUTLINE
May 16, 2012**

1. Audit Reports Issued since February 15, 2012, Board of Regents Meeting
 - AR2012-15 Follow-up Status Report
 - AR2012-16 Construction Award Status Report
 - AR2012-17 UH Texas Learning & Computation Center
 - AR2012-18 UH Non-College Specific, Endowments
 - AR2012-19 UH Hilton Hotel
 - AR2012-20 UHV Information Security Standards
 - AR2012-21 UHCL Information Security Standards
 - AR2012-22 UHV President's Office, Departmental Reviews
 - AR2012-23 UH System Administration, Endowments
 - AR2012-24 UH National Research University Fund
 - AR2012-25 UH Athletics, NCAA Rules-Compliance
 - AR2012-26 UHV School of Arts & Sciences, Departmental Review
 - AR2012-27 UHV School of Education and Human Development, Departmental Review
 - AR2012-28 UHV School of Business Administration, Departmental Review
 - AR2012-29 Internal Quality Assurance Review of Internal Auditing

2. Reports in Progress
 - UH Texas Institute for Measurement, Evaluation and Statistics (*August 2012*)

3. Fieldwork in Progress (*scheduled distribution date to Board of Regents*)
 - UHS / UH Chancellor / President Travel, FY 2012
 - UHS Board of Regents Travel, FY 2012
 - UH Texas Center for Superconductivity
 - UH Texas Center for Superconductivity, Endowments
 - UH Center for Advanced Materials
 - Financial Reporting (all components)

4. Planning in Progress
 - Student Accounting & Receivables (UH, UHCL, UHD, UHV)
 - UHD Employment Services & Operations, Departmental Review
 - UHD President's Office, Departmental Reviews
 - UHD Public Service, Departmental Reviews
 - UHD Student Services and Enrollment Management, Departmental Reviews
 - Financial Aid (UHCL, UHD, UHV)

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

**AUDIT PLAN STATUS, FY 2012
AS OF APRIL 18, 2012**

<u>AUDIT AREA</u>	<u>STATUS (See Note)</u>
<u>ANNUAL AUDIT ACTIVITY</u>	
Annual External Audits - Liaison	2
Athletics - Football Attendance Audit	4
Board of Regents Travel, FY 2012	2
Chancellor/President's Travel, FY 2012	2
Follow-up Reviews	2
Special Projects/Police Investigations	2
State Auditor's Office Liaison:	
Regional Accrediation Review - SACS (UHCL)	4
Audit Assistance - General	2
Follow-up Reports	2
<u>ALL COMPONENTS</u>	
Auxiliary Contract Administration	
Formula Funding	
Endowments	
UH College of Architecture	
UH College of Business	
UH Graduate College of Social Work	
UH College of Hotel & Restaurant Management	
UH College of Law	
UH Texas Center for Superconductivity	2
Financial Aid (UHCL, UHD, and UHV)	1
General Accounting	
<u>RESEARCH CENTERS</u>	
UH Center for Materials Chemistry	5
UH/UHCL Institute for Space System Operations	5
UH Texas Center for Superconductivity	2
<u>INFORMATION TECHNOLOGY</u>	
IT - Review and Monitor of IT Systems	
PeopleSoft Student & Academic Administration	
- Post-Implementation Review	
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	4
Internal Auditing External Quality Assurance Review	2

Notes:

- 1 Planning in progress.
- 2 Fieldwork in progress.
- 3 Reporting in progress.
- 4 Completed.
- 5 Cancelled - Center no longer exists.

<u>AUDIT AREA</u>	<u>STATUS (See Note)</u>
<u>DEPARTMENTAL REVIEWS</u>	
Effectiveness of New Departmental Review Process	4
UH Research	
UH University Advancement	
UHCL Education	
UHCL President's Office	
UHD Administration & Finance	
UHD Employment Services & Operations	1
UHD President's Office	1
UHD Public Service	1
UHD Student Services & Enrollment Management	1
UHV Arts & Sciences	4
UHV Business Administration	4
UHV Education	4
UHV President's Office	4
<u>CARRYFORWARD AUDITS</u>	
Athletics - NCAA Rules Compliance	4
Board of Regents Travel, FY 2011	4
Chancellor/President's Travel, FY 2011	4
Contract & Grants Admin. (UHCL, UHD, and UHV)	
Departmental Reviews	
UH Academic Affairs/Provost Division	4
UH College of Hotel & Restaurant Management	4
UH Graduate College of Social Work	4
Endowments (UH):	
UH Engineering	4
UH Non-College Specific	4
UH Provost	4
UH System	4
Financial Reporting (all components)	2
Financial Aid, Direct Loans (UHCL, UHD, and UHV)	1
Research Centers	
UH Center for Advanced Materials	2
UHCL/UH Environmental Institute of Houston	
UH Texas Inst. for Measurement, Eval. & Statistics	3
UH Texas Learning & Computation Center	4
Student Accounting & Receivables (all components)	1
TAC 202 (UHD)	4
TAC 202 (UHCL and UHV)	4
UH College of HRM, Operational Review	4

UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT

INTERNAL AUDIT REPORTS

EXECUTIVE SUMMARIES

REPORT NOS. AR2012-15 through AR2012-29

**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 January 1, 2012, to March 31, 2012, in all audit reports with open recommendations. This status report addresses 20 management actions in 7 individual reports. In ascertaining whether appropriate action was taken, we interviewed personnel, reviewed documentation and performed other audit procedures as necessary. We determined that 15 of these management actions have been completed and 5 partially implemented.

Internal Audit Report – Construction Award Status Report

The internal audit review of construction procurement of major construction projects covers the time period from January 1, 2012 to March 31, 2012. 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 completeness, 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 – UH Texas Learning & Computation Center

The Internal Audit Department conducted a review of the Texas Learning and Computation Center (TLC²) to determine whether its activities help it accomplish its goals and objectives and whether the department's resources are being effectively and efficiently deployed under an adequate system of internal controls. In our opinion, 1) TLC²'s activities are helping accomplish its goals and objectives, 2) TLC²'s resources could be more effectively and efficiently deployed under an improved internal control environment, 3) TLC²'s activities do not always comply with regulations and policies, and 4) TLC²'s controls over information resources could be improved. We noted three matters that we considered to be significant engagement observations: lack of financial and administrative oversight, lack of oversight over centers and institutes, and non-compliance with effort reporting regulations. Management informed us that it would take the necessary action in order to help prevent reoccurrences of similar instances of non-compliance with university policies; develop a university policy and modify its guidelines for the

management of centers and institutes; and to consider further automation of the effort reporting system, including monitoring for compliance. Management also informed us that they plan to evaluate TLC²'s services and funding model.

Internal Audit Report – UH Non-College Specific, Endowments

We performed a review of Non-College Specific endowments that are managed by various departments throughout the university. The primary objective of our review was to determine whether the departments are managing endowment funds effectively and efficiently and are complying with the terms of the endowment agreements. In our opinion, all departments are managing endowment funds effectively and efficiently and are complying with the terms of the endowment agreements. Although we noted no matters we considered to be significant engagement observations, we noted that funds from certain endowments have not been expended for several years and instances of non-compliance with certain university policies and procedures. Management is in the process of addressing these opportunities for improvement.

Internal Audit Report – UH Hilton Hotel

We performed a review of the hotel and food services operations managed by the University of Houston, Hilton Hotel. The primary objective of our review was to determine whether there are procedures to help ensure that hotel and food service operations are being efficiently and effectively managed under an adequate system of internal controls and in compliance with the terms and conditions of the contract. In our opinion, there are procedures to help ensure that hotel and food service operations are being efficiently and effectively managed under an adequate system of internal controls and in compliance with the terms and conditions of the contract. Although we noted no matters we considered to be significant engagement observations, we noted that procedures for the settlement process with the food service provider have not been updated in several years. Management is in the process of modifying these procedures.

Internal Audit Report – UHV 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–Victoria 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–Victoria'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 engagement observations, we noted that monthly information security incident reports are not always submitted to the Department of Information Resources.

Internal Audit Report – UHCL 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–Clear Lake 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–Clear Lake’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 engagement observations, we noted that the University is still in the process of developing its Business Continuity Plan.

Internal Audit Report – UHV President’s Office, 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 six departmental reviews in the President’s Office. 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 President’s Office was not in compliance with certain policies. Management agreed to implement action plans for certain areas 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 Audit Report – UH System Administration, Endowments

We performed a review of the endowments that are managed by various departments throughout the system. The primary objective of our review was to determine whether the departments are managing endowment funds effectively and efficiently and are complying with the terms of the endowment agreements. In our opinion, all departments are managing endowment funds effectively and efficiently and are complying with the terms of the endowment agreements. Although we noted no matters we considered to be significant engagement observations, we noted that funds from certain endowments have not been expended for several years, endowment agreements have not been reviewed for reasonableness and completeness, certain endowment cost centers do not contain appropriate fund and/or program codes, and instances of non-compliance with certain university policies and procedures. Management is in the process of addressing these opportunities for improvement.

Internal Audit Report – UH National Research University Fund

We performed a review to determine whether the University submitted accurate information to the Texas Higher Education Coordinating Board (THECB) for eligibility for funding from NRUF. In our opinion, the information reported to the THECB regarding NRUF eligibility was accurate with the exception of the amounts reported for FY 2010 restricted research expenditures, FY 2010 doctoral degrees, and FY 2010 and FY 2011 endowment funds. We believe that none of these exceptions would prevent the University from attaining NRUF eligibility. The review **did not include** tests of detailed expenditure transactions. These expenditures and other information are subject to a mandatory audit by the State Auditor’s Office. It should be noted that during a recent audit of a UH Research Center, we noted that certain tasks related to effort reporting were not always taking place which may affect the determination of whether certain restricted research expenditures related to payroll transactions

are allowable. In our opinion, the University could improve its procedures for helping ensure that it is reporting accurate information to the THECB. Although we noted no matters we considered to be significant engagement observations, we noted opportunities for improvement related to the NRUF reporting process. Management is in the process of addressing these opportunities for improvement.

Internal Audit Report – UH Athletics, NCAA Rules-Compliance

The NCAA Operating Bylaw 22.2.1.2.e. requires each Division I member to demonstrate that its rules-compliance program is the subject of evaluation by an authority outside of the Athletics Department at least once every four years. For this engagement, we evaluated the Athletics Department rules-compliance program for the following areas: eligibility, playing and practice seasons, coaching staff limits and contracts, and certification of compliance. These areas were reviewed using the standard audit program developed by the Association of College and University Auditors in cooperation with the NCAA. In our opinion, the Athletics Department's rules-compliance program in these areas helps ensure compliance with NCAA rules. Although we noted no matters that we considered to be significant engagement observations, we did note two areas that needed improvement, playing and practice seasons and departmental compliance procedures. Management developed an action plan to help ensure compliance with the NCAA rules in these areas.

Internal Audit Report – UHV School of Arts & Sciences, Departmental Review

The objective of the Departmental Review is to determine whether departments are conducting financial and administrative activities in compliance with university policies. We performed one departmental review in the School of Arts and Sciences. 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 School was not in compliance with certain policies. Management 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 Audit Report – UHV School of Education and Human Development, Departmental Review

The objective of the Departmental Review is to determine whether departments are conducting financial and administrative activities in compliance with university policies. We performed one departmental review in the School of Education and Human Development. 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 School was not in compliance with certain policies. Management agreed to implement action plans for certain areas 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 Audit Report – UHV School of Business Administration, Departmental Review

The objective of the Departmental Review is to determine whether departments are conducting financial and administrative activities in compliance with university policies. We performed one departmental review in the School of Business Administration. 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 School was not in compliance with certain policies. Management 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 Audit Report – Internal Quality Assurance Review of Internal Auditing

The reviewer concluded that the internal audit activities at the University of Houston System Internal Auditing Department generally conforms to the IIA's *Standards*. This opinion means that the Internal Auditing Department has a charter, policies, and processes that are judged to be in conformance with the IIA's *Standards*. The report contains suggestions for improvements and potential enhancements that will augment the value, efficiency, and effectiveness of the internal audit activities provided by the University of Houston System Internal Auditing Department.

Internal Auditing Department
Internal Audit Report Recommendations - Summarized by Area
May 16, 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	AR2012-15																		
Construction Award Status Report	AR2012-16																		
UH Texas Learning & Computation Center	AR2012-17	X	X	X	X		X		X		X	X	X		X		X		X
UH Non-College Specific, Endowments	AR2012-18				X		X												X
UH Hilton Hotel	AR2012-19																		
UHV Information Security Standards	AR2012-20						X												
UHCL Information Security Standards	AR2012-21						X												
UHV President's Office, Departmental Reviews	AR2012-22						X		X						X		X		X
UH System Administration, Endowments	AR2012-23				X		X												X
UH National Research University Fund	AR2012-24																		
UH Athletics, NCAA Rules-Compliance	AR2012-25																		
UHV School of Arts & Sciences, Departmental Review	AR2012-26																X		X
UHV School of Education & Human Development, Departmental Review	AR2012-27								X					X		X			
UHV School of Business Administration, Departmental Review	AR2012-28																		X
Internal Quality Assurance Review of Internal Auditing	AR2012-29											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. AR2012-15 through AR2012-29
(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 Texas Learning and Computation Center - AR2012-17
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		
July 31, 2012	Selesta Hodge Executive Director of Research Services and Finance	Implement procedures to determine whether the monthly checklists are accurate.
December 31, 2012	Craig Ness AVP fo Academic Budgets and Administration Selesta Hodge Executive Director of Research Services and Finance	Implement a MAPP to address all of the requirements of SAM 06.A.07, including clarifying the roles, responsibilities, and reporting lines to help ensure proper oversight and accountability of centers and institutes.
August 31, 2012	Mike Glisson UHS/UH Controller	Modify MAPPs 04.01.3, 04.02.01A & B, and 05.02.02 to require a faculty member's academic unit to initiate and academic supervisor to approve all reimbursement to the faculty member regardless of funding source.
December 31, 2012	Selesta Hodge Executive Director of Research Services and Finance	Modify guidelines for governing Centers and Institutes to help ensure compliance with SAM, including procedures for defining and reporting criteria to assess effectiveness and procedures to help ensure review results are timely communicated to management.

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**

**UH Texas Learning and Computation Center - AR2012-17
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		
August 31, 2012	Craig Ness AVP for Academic Budgets and Administration	Review, update and publish guidelines for oversight of Academic Centers and Institutes.
August 31, 2013	Selesta Hodge Executive Director of Research Services and Finance	Implement a new automated effort reporting system that will be interfaced with the PeopleSoft payroll module.
August 31, 2012	Selesta Hodge Executive Director of Research Services and Finance	Develop a monitoring and compliance program, including the current effort reporting process, with management reports and escalating said reports to university administration.
August 31, 2013	Selesta Hodge Executive Director of Research Services and Finance	Task the Research and Scholarship Committee with evaluating services performed by university centers and institutes and to provide a recommendation regarding TLC ² to the Vice Chancellor/Vice President for Research and Technology Transfer for consideration.
August 31, 2012	Craig Ness AVP for Academic Budgets and Administration	Work with the Division of Research and the Division of Administration and Finance to review the computing and administrative services provided by TLC ² and determine if improvements can be made in the efficiencies of services provided.

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**

**UH Texas Learning and Computation Center - AR2012-17
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		
April 30, 2012	Robert Honeyman, Associate Director for Research Administration and Finance	Obtain supervisory or unit head approval for direct reimbursements to employees.
April 30, 2012	Robert Honeyman, Associate Director for Research Administration and Finance	Obtain reimbursement from the faculty member for overpayments made relating to reimbursement requests.
August 31, 2012	Robert Honeyman, Associate Director for Research Administration and Finance	Complete Gift Transmittal Forms for donated assets and record the assets on the property inventory.
March 31, 2012	Robert Honeyman, Associate Director for Research Administration and Finance	Transfer equipment purchased by other university departments to the TLC ² property inventory.
August 31, 2012	T. Mark Huang, Research Associate 2	Perform an annual review of access to computer resources.
August 31, 2012	T. Mark Huang, Research Associate 2	Update the user authorization form to not include Social Security numbers and retain copies of authorization forms.

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**

**UH Texas Learning and Computation Center - AR2012-17
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		
April 30, 2012	Robert Honeyman, Associate Director for Research Administration and Finance	Work with the Division of Research to determine the allowability of expenses that do not appear to be directly related to a grant.
May 31, 2012	Robert Honeyman, Associate Director for Research Administration and Finance	Review effort reported by Research personnel on grants administered by TLC ² and prepare payroll reallocations when effort is significantly different from the amount of salary charged to the grant.
August 31, 2012	Robert Honeyman, Associate Director for Research Administration and Finance	Restore deficit budgetary balances to zero or positive amounts and implement procedures to prevent spending funds that are not available.

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**

**UH Non-College Specific, Endowments - AR2012-18
Action Plan**

Est. Compl. Date	Responsibility for Action Name/Title	Action To Be Taken
Risk Level: High Medium Low		
September 30, 2012	Raymond Bartlett Treasurer Treasurer's Office	Work with University Advancement and General Counsel to determine how to utilize the funds available from this endowment.

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**

**UH Hilton Hotel - AR2012-19
Action Plan**

<u>Est. Compl. Date</u>	<u>Responsibility for Action Name/Title</u>	<u>Action To Be Taken</u>
Risk Level: High Medium Low		
August 31, 2012	Thomas Chandapilla College Business Administrator UH Hilton Hotel	Modify procedures for its settlement process/reconciliation to help ensure accuracy of the invoices and operating statements submitted by Aramark.

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**

**UHV Information Security Standards - AR2012-20
Action Plan**

Est. Compl. Date	Responsibility for Action Name/Title	<u>Action To Be Taken</u>
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Risk Level: High Medium Low

June 1, 2012	Joe Ferguson Sr. Director of Information Technology	Implement procedures to help ensure monthly information security incident reports are submitted to the DIR and submit previous reports that have not been sent to the DIR.
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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**

**UHV President's Office, Departmental Reviews - AR2012-22
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		
September 1, 2012	Ashley Walyuchow, Athletics Director	Update the Student-Athlete's Handbook to include current university and NAIA policies and procedures.
June 1, 2013	Ashley Walyuchow, Athletics Director	Create a desk reference manual to assist the department to help ensure compliance with university and NAIA policies and procedures.

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**

**UH System Administration, Endowments - AR2012-23
Action Plan**

Est. Compl. Date	Responsibility for Action Name/Title	Action To Be Taken
Risk Level: High Medium Low		
August 31, 2013	Beth Schaefer Manager of Gift Compliance University Advancement	Review the system endowment agreements and update agreements or prepare memorandums of understanding, as necessary.
August 31, 2013	Raymond Bartlett Treasurer Treasurer's Office	Work with personnel at the various components to help ensure income beneficiary cost centers contain accurate fund and/or program codes.

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**

**UH National Research Univeristy Fund - AR2012-24
Action Plan**

Est. Compl. Date	Responsibility for Action Name/Title	Action To Be Taken
Risk Level: High Medium Low		
August 31, 2012	Nancy Ward Director Research Information Center David Ellis Executive Director Financial Reporting	Develop formal policies and procedures for reporting restricted research expenditures to the THECB including procedures for reconciling reported amounts to the University's annual financial statements.
September 30, 2012	Raymond Bartlett Treasurer Treasurer's Office	Request the foundations to provide supporting documentation each reporting cycle to substantiate the market value being provided to UH.
October 1, 2012	Libby Barlow Assistant VP Academic Affairs	Modify procedures to compare the CBM009 report with the Student Applied to Graduate report in the error checking process prior to the CBM009 submission, and resolve any discrepancies.
October 1, 2012	Libby Barlow Assistant VP Academic Affairs	Create a query and run it not less than once every semester to identify unreported degrees.
October 1, 2012	Libby Barlow Assistant VP Academic Affairs	Implement procedures for storing faculty emeritus data in the database.
Action Complete	Libby Barlow Assistant VP Academic Affairs	Designate a NRUF "champion" to oversee the reporting processes, maintain documentation, and work with the THECB to streamline the reporting process.

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**

**UH Athletics, NCAA Rules-Compliance - AR2012-25
Action Plan**

Est. Compl. Date	Responsibility for Action Name/Title	Action To Be Taken
Risk Level: High Medium Low		
August 31, 2012	Kevin Klotz Assistant Athletics Director for Compliance and Eligibility	Update the Athletics Compliance Office Departmental Manual to address the current practices resulting from the recent implementation of NCAA Compliance Software and to address Compliance Office responsibilities.
Action Complete	Kevin Klotz Assistant Athletics Director for Compliance and Eligibility	Re-notify coaches and student-athletes of the requirement to certify playing and practice activities.

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**

**UHV, School of Education and Human Development, Departmental Review - AR2012-27
Action Plan**

Est. Compl. Date	Responsibility for Action Name/Title	<u>Action To Be Taken</u>
Risk Level: High Medium Low		
June 1, 2012	Dyana Cochrum Administrative Assistant School of Education and Human Development	Perform grant cost center verifications.

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**

**UHS Internal Auditing Department, Internal Quality Assurance Review - AR2012-29
Action Plan**

Est. Compl. Date	Responsibility for Action Name/Title	Action To Be Taken
Risk Level: High Medium Low		
August 31, 2012	Don Guyton Chief Audit Executive	Implement the new release of the TeamMate Audit Management System and the Electronic Working Papers module.
August 31, 2013	Don Guyton Chief Audit Executive	Assess the benefits of implementing other TeamMate modules and automate audit administrative functions.
August 31, 2012	Don Guyton Chief Audit Executive	Assess and modify the quality assurance checklist, as necessary, and reference relevant IIA Standards.
July 1, 2012	Don Guyton Chief Audit Executive	Standardize risk assessment methods and/or forms, as applicable, and reference risk assessment results to audit procedures.
August 31, 2012	Don Guyton Chief Audit Executive	Evaluate the current use of technology based audit tools and data analysis techniques.
August 31, 2013	Don Guyton Chief Audit Executive	Acquire additional technology based audit tools, as appropriate, provide training, and implement.

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 AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM

FOLLOW-UP STATUS REPORT

Actions Scheduled from January 1, 2012 to
March 31, 2012

REPORT NO. AR2012-15

**UNIVERSITY OF HOUSTON SYSTEM
FOLLOW-UP STATUS REPORT
(Actions Scheduled from January 1, 2012, to March 31, 2012)**

**Board of Regents Audit Committee Meeting
May 16, 2012**

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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
(Actions scheduled from January 1, 2012, to March 31, 2012)**

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 January 1, 2012, to March 31, 2012, in all audit reports with open recommendations. This status report addresses 20 management actions in 7 individual reports. In ascertaining whether appropriate action was taken, we interviewed personnel, reviewed documentation and performed other audit procedures as necessary. We determined that 15 of these management actions have been completed and 5 partially 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 or Partially 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
April 6, 2012

Attachment

**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	AR2012-15	X
AR2009-22	08/11/09	UHS Facilities Development Project		
AR2010-02	11/05/09	UHCL TAC 202		
AR2010-03	11/05/09	UH TAC 202		X
AR2010-07	11/05/09	UH, CLASS - Departmental Reviews		
AR2010-17	05/12/10	UH Law Center, Departmental Reviews	AR2012-09	
AR2010-26	08/11/10	UH Athletics, NCAA Rules-Compliance	AR2012-15	X
AR2011-05	02/16/11	UH, Division of Student Affairs Departmental Reviews		
AR2011-11	02/16/11	UH College of Optometry Departmental Review		
AR2011-16	02/16/11	UHD Office of Academic Affairs & Provost Departmental Reviews	AR2012-09	
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		
AR2011-26	05/18/11	College of Education, Endowments	AR2012-15	X
AR2011-29	08/17/11	UH Library, Endowments	AR2012-01	
AR2011-34	08/17/11	UH College of Natural Sciences & Mathematics, Endowments	AR2012-09	
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	
CCM #0901	01/31/09	Calhoun Lofts Residence Hall Interim Construction Audit	AR2012-01	
SAO Report #12-328	2/21/2012	Federal Portion of the Statewide Single Audit, FY2011	AR2012-15	X

**University of Houston System
Internal Auditing Department**

**Follow-up Status Report
as of March 31, 2012**

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	22j	48	3/31/2012	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.	<i>Partially Implemented - Updated Management's Response:</i> Physics will fund all cost centers with cost overruns and notify DoR to close and inactivate the cost centers. DoR will process all cost center closeouts with cash overages and identify tasks necessary to inactivate remaining cost centers. Estimated Completion Date: July 31, 2012.
AR2009-20	Information Security Standards	3c	7	1/30/2012	Hossein Shahrokhi Associate VP Information Technology	UHD	Work with university leadership to update UHD's Business Continuity Plan to include all business functions of the University.	<i>Action Complete</i>
AR2010-03	Information Security Standards	3c	11	1/31/2012	Mary Dickerson Executive Director, IT Security	UH	Review and update the Information Security Manual, SAMs, and MAPPs, as appropriate, to help ensure that the policies are aligned with current information security practices and are in compliance with TAC 202.	<i>Partially Implemented - Updated Management's Response:</i> Review of all IT SAMs and MAPPs and the Information Security Manual has been completed. One MAPP and two SAMs were rescinded. Proposed revisions to SAMs and MAPPs are in various stages of the review process with four MAPPs having been approved. Revisions to the Information Security Manual are being made as the SAMs and MAPPs are approved to reflect appropriate updates. Estimated Completion Date: September 1, 2012.
AR2010-26	Athletics NCAA Rules-Compliance	1c	5	2/1/2012	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.	<i>Action Complete</i>
AR2011-24	UH Research Administration	1b	6	2/29/2012	Selesta Hodge, Exec. Dir. For Research Services & Finance	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 developed procedures to monitor grant cost centers that have expired or have deficit budgets, but they have not been adequately publicized or placed on the DoR website. The DoR is in the process of posting the policies and procedures on the web and publicizing the information to our UH audience. Estimated Completion Date: July 31, 2012.

**University of Houston System
Internal Auditing Department**

**Follow-up Status Report
as of March 31, 2012**

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	2b	6	2/29/2012	Selesta Hodge, Exec. Dir. For Research Services & Finance	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 developed procedures to monitor grant cost centers that have expired or have deficit budgets, but they have not been adequately publicized or placed on the DoR website. The DoR is in the process of posting the policies and procedures on the web and publicizing the information to our UH audience. Estimated Completion Date: July 31, 2012.
AR2011-24	UH Research Administration	3a	6	4/1/2012	Mike Glisson, Controller, Administration & Finance	UH	Implement comprehensive accounts receivable billing, accounting, collecting, and monitoring procedures to help ensure the accuracy of accounts receivable relating to non-federal sponsors and to facilitate the collection of money owed to the university.	<i>Partially Implemented - Updated Management's Response:</i> For the past 8 months, representatives of the Division of Research, Academic Affairs and Finance & Administration have reviewed systems to address our needs. We expect implementation and testing to take at least 18 months. Estimated Completion Date: August 31, 2013.
AR2011-26	College of Education, Endowments	1	3	3/31/2012	Dr. Melissa Pierson Assoc. Dean for Undergraduate Studies College of Education	UH	Identify other methods to attract qualified applicants in order to award more scholarships.	<i>Action Complete</i>
SAO Report #12-328	Federal Portion of the Statewide Single Audit, FY2011	1	12	1/25/2012	Debra Carpenter Exec. Dir. Procurement	UHCL	Modify the procurement system to require suspension and debarment checks for purchases exceeding \$25,000 and implement written operating procedures to help ensure compliance with the suspension and debarment requirements.	<i>Action Complete</i>
SAO Report #12-328	Federal Portion of the Statewide Single Audit, FY2011	2	12	12/31/2011	Sal Loria Exec. Dir. OSFA, Jessica Thomas Assoc. Dir. OSFA	UH	Modify procedures to help ensure cost of attendance calculations match published budgets.	<i>Action Complete</i>
SAO Report #12-328	Federal Portion of the Statewide Single Audit, FY2011	3	12	12/31/2011	Sal Loria Exec. Dir. OSFA, Jessica Thomas Assoc. Dir. OSFA	UH	Modify the Financial Aid System to help ensure that the correct university census date is used in Pell Grant award calculations.	<i>Action Complete</i>
SAO Report #12-328	Federal Portion of the Statewide Single Audit, FY2011	4	12	12/31/2011	Sal Loria Exec. Dir. OSFA, Jessica Thomas Assoc. Dir. OSFA	UH	Modify procedures to generate and review a report of all students scheduled to graduate prior to disbursing financial assistance.	<i>Action Complete</i>

**University of Houston System
Internal Auditing Department**

**Follow-up Status Report
as of March 31, 2012**

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								
SAO Report #12-328	Federal Portion of the Statewide Single Audit, FY2011	5	12	12/31/2011	Sal Loria Exec. Dir. OSFA, Jessica Thomas Assoc. Dir. OSFA	UH	Update SAP policy to comply with Federal requirements and implement a periodic review process to help ensure that the SAP minimum Federal requirements are continuously met.	<i>Action Complete</i>
SAO Report #12-328	Federal Portion of the Statewide Single Audit, FY2011	6	12	12/31/2011	Claudia Guzman Financial Aid Pgm Coord 2	UH	Implement procedures to help ensure that Pell disbursement reports are submitted to the COD System within the required 30 day time frame and that the actual disbursement dates of Pell awards are reported to the COD System.	<i>Action Complete</i>
SAO Report #12-328	Federal Portion of the Statewide Single Audit, FY2011	7	12	12/31/2011	Jessica Thomas Assoc. Dir. OSFA, Candida DuBose Asst. Dir. OSFA	UH	Modify procedures to help ensure that all staff use the correct withdrawal date on the Title IV Return calculation and to help identify students that require the calculation within the required time frame.	<i>Action Complete</i>
SAO Report #12-328	Federal Portion of the Statewide Single Audit, FY2011	8	12	12/31/2011	Jessica Thomas Assoc. Dir. OSFA, Candida DuBose Asst. Dir. OSFA	UH	Modify written procedures to clarify the timeline for determining a student's withdrawal date and to identify unofficial withdrawals in a timely manner to help ensure that the "institutional determination date" is used in the Return of Title IV calculation.	<i>Action Complete</i>
SAO Report #12-328	Federal Portion of the Statewide Single Audit, FY2011	9	12	12/31/2011	Jessica Thomas Assoc. Dir. OSFA, Candida DuBose Asst. Dir. OSFA	UH	Modify procedures to require staff to manage the Proof of Course Completion Forms process by sending them out timely, enforcing deadlines and processing the documentation provided to the Financail Aid Office.	<i>Action Complete</i>
SAO Report #12-328	Federal Portion of the Statewide Single Audit, FY2011	10	12	12/31/2011	Jessica Thomas Assoc. Dir. OSFA, Candida DuBose Asst. Dir. OSFA	UH	Implement procedures to help ensure that all unofficial withdrawals are reported to the NSC within the required timeframe and to help ensure tha sutdent status changes are reported to NSLDS in a timely manner.	<i>Action Complete</i>
SAO Report #12-328	Federal Portion of the Statewide Single Audit, FY2011	11	12	12/31/2011	Jessica Thomas Assoc. Dir. OSFA, Lear Hickman Asst. Dir. OSFA	UH	Implement procedures to help ensure that all loan disbursement reports and actual disbursement dates are submitted to the COD System within the required 30 day time frame.	<i>Action Complete</i>
SAO Report #12-328	Federal Portion of the Statewide Single Audit, FY2011	12	12	12/31/2011	Jessica Thomas Assoc. Dir. OSFA, Lear Hickman Asst. Dir. OSFA	UH	Implement procedures to reconcile financial records of loan disbursements to SAS data files on a monthly basis.	<i>Action Complete</i>

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM

CONSTRUCTION AWARD STATUS REPORT

Activity from January 1, 2012 to
March 31, 2012

REPORT NO. AR2012-16

University of Houston System
Internal Auditing Department
Construction Award Status Report
January 1, 2012 through March 31, 2012

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 January 1, 2012 through March 31, 2012.

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
April 9, 2012

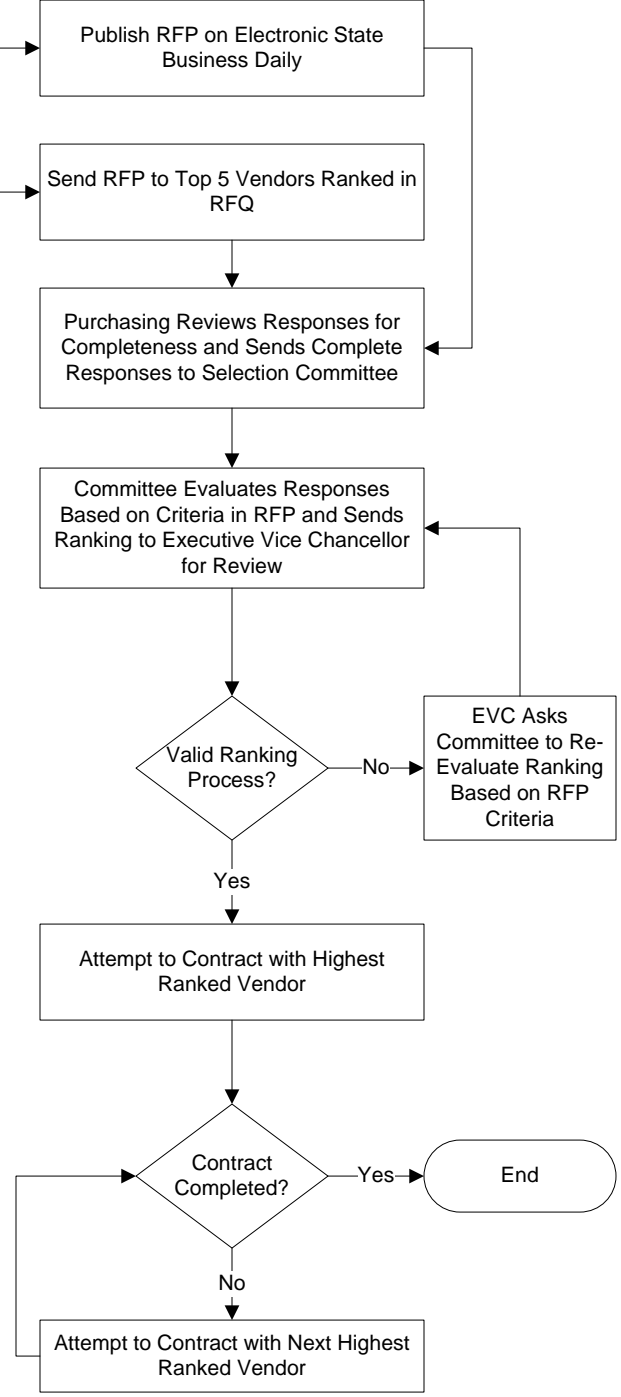
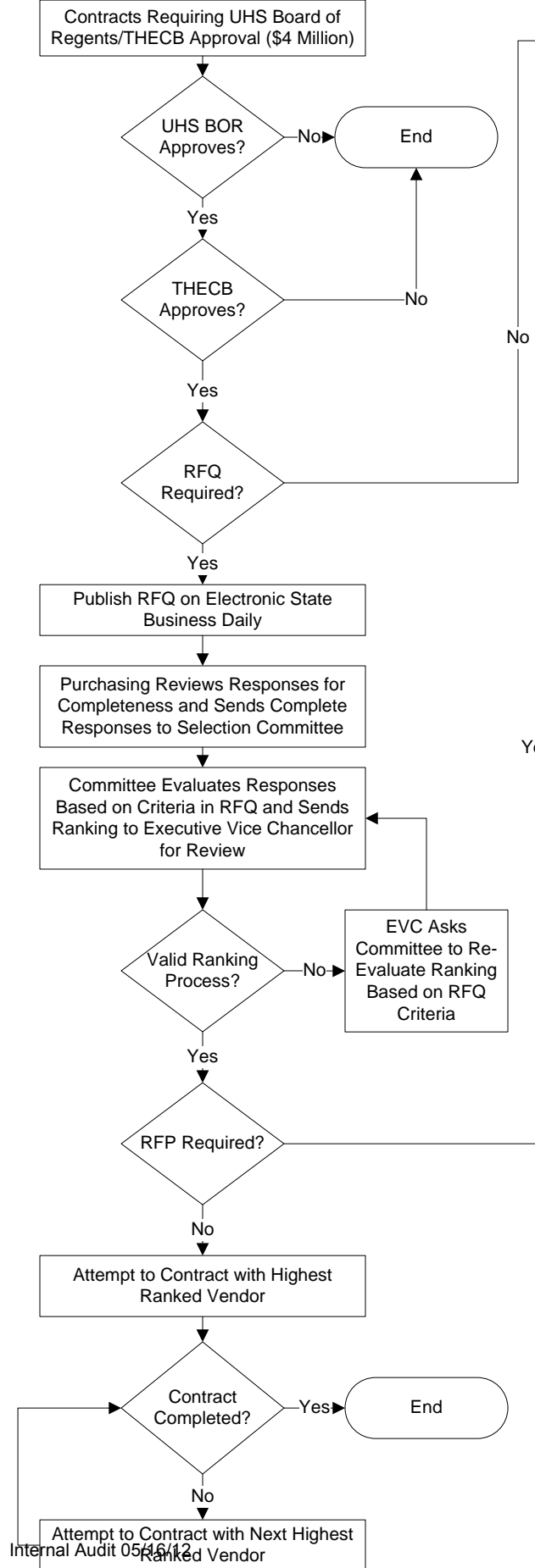
UHS Construction Projects
Internal Audit Activity
January 1, 2012 to March 31, 2012

Project Description	(\$ millions) Amount	BOR Approval			Pre-award Milestones						
		FCMP Comm. (Scope) Date	F&A Comm. (Financing) Date	Posting of RFQ to ESBD	Eval. of Qualification Rankings by Purchas.	Eval. of Purchasing Rec. by EVC AF	Review by Int. Aud.	Posting of RFP to ESBD	Eval. of Propoal Rankings by Purchas.	Eval. of Purchasing Rec. by EVC AF	Review by Int. Aud.
DB - Multi-Modal Parking Garage	20	8/16/2011	8/17/2011	9/21/2011	11/17/2011	11/17/2011	✓	11/21/2011	1/11/2012	1/12/2012	✓
CMAR - Stadium	105	3/27/2012		1/31/2012	2/15/2012	3/27/2012	✓				
CMAR - Stadium - AE		3/27/2012		2/1/2012	2/15/2012	3/27/2012	✓				

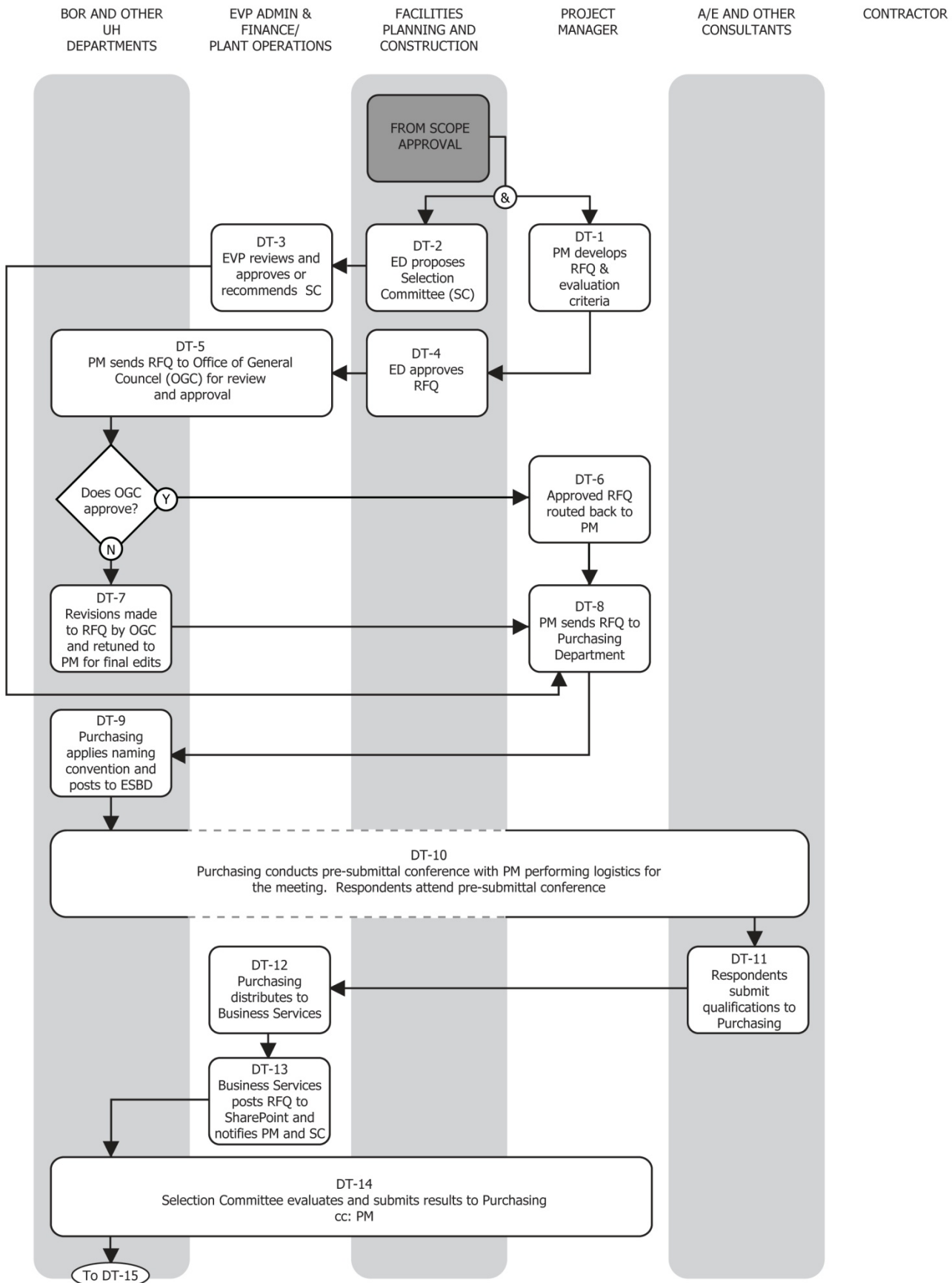
✓ (1) Confirmed date of posting RFQ/RFP to ESBD, (2) Confirmed evaluation criteria and weights used by selection team, (3) Checked clerical accuracy of Purchasing Department's compilation of selection team evaluation, (4) Reviewed EVC AF evaluation of purchasing recommendation for reasonableness.

Request for Qualifications (RFQ)

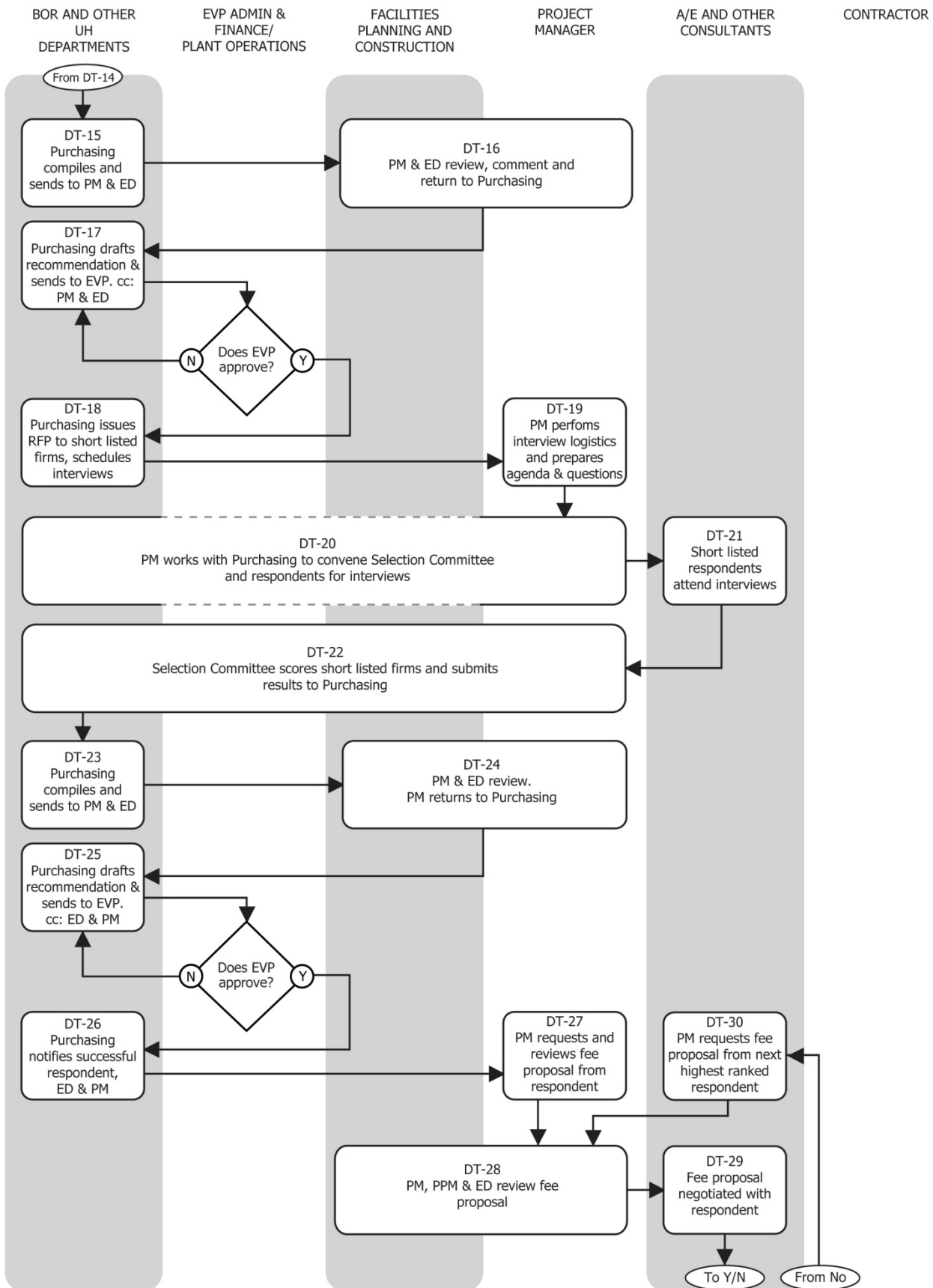
Request for Proposal (RFP)



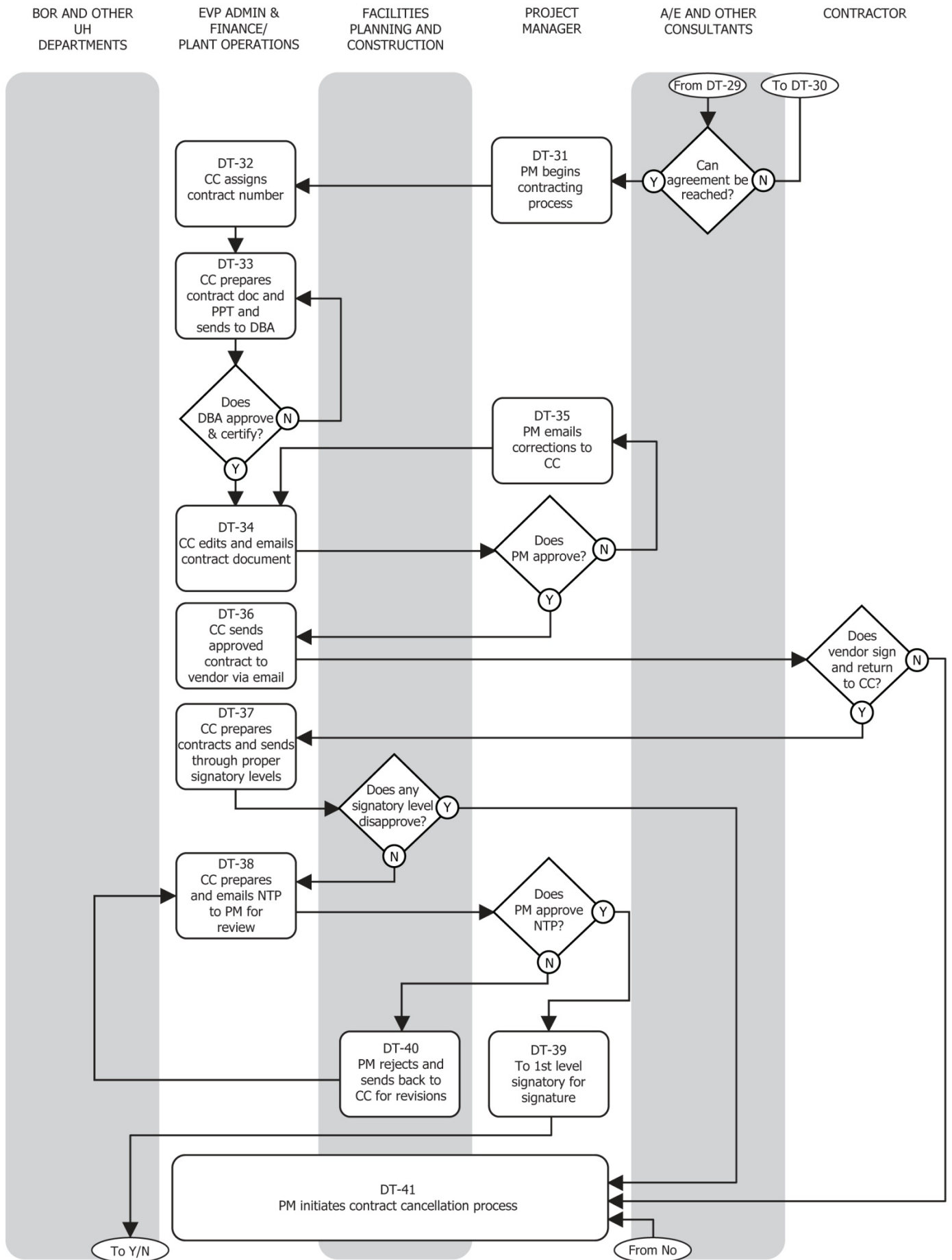
DESIGN TEAM SELECTION FLOWCHART



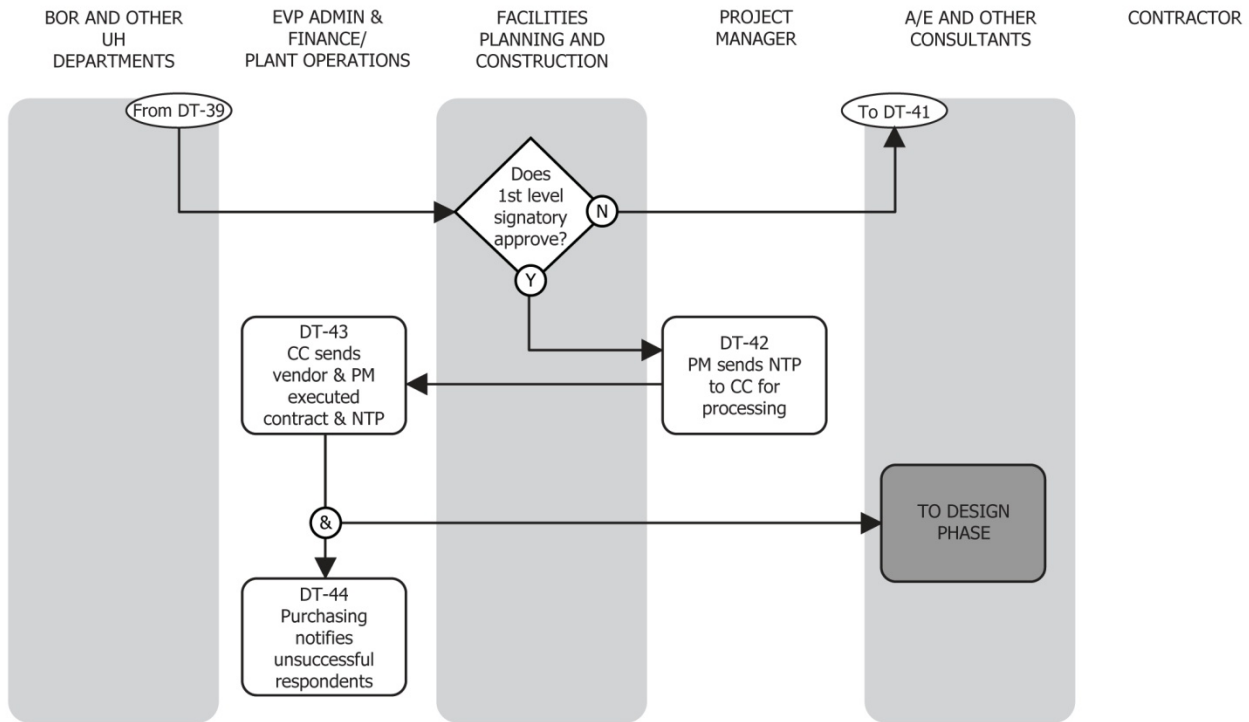
DESIGN TEAM SELECTION FLOWCHART



DESIGN TEAM SELECTION FLOWCHART



DESIGN TEAM SELECTION FLOWCHART



UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON

TEXAS LEARNING AND COMPUTATION
CENTER

REPORT NO. AR2012-17

**UNIVERSITY OF HOUSTON SYSTEMS
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON
TEXAS LEARNING AND COMPUTATION CENTER**

BACKGROUND:

The Internal Audit Department conducted a review of the Texas Learning and Computation Center (TLC²). The primary objective was to determine whether the TLC²'s activities help it accomplish its goals and objectives and whether the department's resources are being effectively and efficiently deployed under an adequate system of internal controls. The audit was included in the Internal Audit Plan for fiscal year 2011, which was approved by the Board of Regents on August 17, 2010.

OBJECTIVES:

The objectives of our review were as follows:

1. Determine whether TLC²'s activities are helping to accomplish its goals and objectives.
2. Determine whether resources are being effectively and efficiently deployed under an adequate system of internal controls.
3. Determine whether the TLC²'s activities comply with statutes, regulations, and policies.
4. Determine whether there are sufficient controls over information resources and assets.

SCOPE OF WORK:

We conducted interviews of the Division of Research and TLC² personnel, reviewed financial records and other documentation, and performed other audit procedures, as appropriate.

CONCLUSION:

In our opinion, 1) TLC²'s activities are helping accomplish its goals and objectives, 2) TLC²'s resources could be more effectively and efficiently deployed under an improved internal control environment, 3) TLC²'s activities do not always comply with regulations and policies,

and 4) TLC²'s controls over information resources could be improved. We noted three matters that we considered to be significant engagement observations: lack of financial and administrative oversight, lack of oversight over centers and institutes, and non-compliance with effort reporting regulations. Management informed us that it would take the necessary action in order to help prevent reoccurrences of similar instances of non-compliance with university policies; develop a university policy and modify its guidelines for the management of centers and institutes; and to consider further automation of the effort reporting system, including monitoring for compliance. Management also informed us that they plan to evaluate TLC²'s services and funding model.

The attachments listed below contain additional information related to the TLC² research center review:

- Significant Engagement Observations
- Opportunity for Improvement
- Compliance Matrix
- Instances of Non-Compliance
- Action Plan
- Research Center Background
- Financial Summary of Transactions

Don F. Guyton
Chief Audit Executive
February 17, 2012

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON
TEXAS LEARNING AND COMPUTATION CENTER
SIGNIFICANT ENGAGEMENT OBSERVATIONS**

Financial and Administrative Oversight

The Division of Research (DoR) manages and administers business policies and processes at the division and unit (research centers/institutes) levels. MAPP 01.02.01, Business Administration, states that division business managers are charged with ensuring the adherence to university policies and procedures within their division. MAPP 01.03.01, Baseline Standards, states that in a decentralized organizational structure the division business manager has primary responsibility for management and oversight of the financial processes, while the unit business managers have primary responsibility for the execution of the financial processes. The division business manager is responsible for the following: 1) communicating policy and procedures changes to units, 2) ensuring that units have adequate support to fulfill their responsibilities, and 3) ensuring that units have appropriate procedures in place to comply with minimum processing standards. In addition, the division business administrator is ultimately responsible for the control procedures in place at each unit. In order to help ensure compliance with university business processes and policies, dual reporting relationships are established by MAPP 01.02.01, such that the unit business administrators report to the division administrator and their respective unit head. Chief division business administrators report to the Executive Vice President for Administration and Finance in addition to their respective Division head.

During our review, we noted that the DoR did not have adequate procedures in place to help ensure that all business functions were adequately performed by Texas Learning and Computation Center (TLC²). We noted numerous non-compliance issues in TLC². Listed below are examples of certain instances of non-compliance with university policies and guidelines.

- Cost center verification logs were not initialed by the cost center managers.
- A Travel Request Form was not properly approved.
- Direct reimbursements were not approved by the employee's supervisor or unit head.
- Expenses were reimbursed to employees more than once.
- Expenses for reimbursement were submitted to the business office more than 60 days after the date of the expense.
- Donated assets were not included on the property inventory nor were Gift Transmittal Forms always completed.
- Certain expenditures charged to grant cost centers do not appear to be allowable.
- Effort reporting is not being accounted for appropriately.
- Grant cost centers had deficit budgetary balances.

Recommendation (DoR): DoR should clearly define its oversight and monitoring responsibilities for business and administrative tasks. The primary duties of the Executive Director of Research Services and Finance and the Vice Chancellor/Vice President for Research and Technology Transfer should be to help ensure that their oversight responsibilities are being fulfilled by requiring these tasks to be performed. DoR should implement monitoring mechanisms to help ensure all business functions and research activities are adequately performed, in accordance with university procedures and guidelines.

Management Response (DoR): In FY 2012, the Vice Chancellor/Vice President for Research and Technology Transfer initiated individual monthly meetings with research center directors and group monthly meetings with research center directors. These meetings help enhance effective interaction and communication regarding center activities and research compliance. In addition, in FY 2012 the Vice Chancellor/Vice President for Research and Technology Transfer implemented his review process for evaluating DoR centers and institutes. Sustainability and feasibility for centers and institutes are currently under review. In parallel to Academic Affairs, DoR introduced and implemented the monthly checklist of operating procedures that must be adhered to in order to ensure sound business practices. The checklist became a mandatory requirement as of September 1, 2011. Using a decentralized administrative management model, DoR hosts monthly Research Business Administrators meetings to disseminate policy/guideline changes, address concerns from the units, and provide periodic training. Effective March 1, 2012, DoR has implemented a more centralized management approach by requiring bi-weekly meetings with the division administrator and each multidisciplinary center business officer. In addition, DoR will implement procedures to determine whether the monthly checklists are accurate by July 31, 2012.

Oversight of Centers and Institutes

System Administrative Memorandum (SAM) 06.A.07, Procedures for the Operation of Institutes and Centers, requires each university to establish policies regarding the operation of academic and research centers and institutes to insure proper oversight. The policies should include but not be limited to the following:

- a. Creation of the center or institute;
- b. Administrative organization of the center or institute;
- c. Periodic review of the effectiveness of the center or institute in fulfilling its mission;
- d. Financial operations and business practices of the center or institute;
- e. Reporting relationships of the center or institute;
- f. Sunset review of the center or institute; and
- g. Dissolution of the center or institute.

The university does not have an institutional policy that addresses all of the requirements of SAM 06.A.07. All centers and institutes report to an academic unit or DoR. The Office of Academic Affairs and Provost (Academic Affairs) and DoR have each developed guidelines for

establishing and operating policies and procedures for research centers and institutes; however, neither guidelines address all of the elements required by SAM 06.A.07.

We also noted the following weaknesses related to the oversight and accountability of centers and institutes:

- Roles and responsibilities for the oversight of center operations are not clear for multidisciplinary centers whose faculty have dual reporting relationships with the DoR and an academic department. In addition, faculty and staff who have appointments in an academic department and utilize TLC² services may come under the oversight of both the academic department and TLC². For example, we identified instances of non-compliance relating to a faculty member being reimbursed for the same expenditure by both the academic department and TLC², travel requests were not approved by the appropriate person, and effort reporting was not being completed.
- Previous reviews of centers identified strengths and weaknesses and provided recommendations, as appropriate, but did not include: (1) development of criteria to assess the return on investment or effectiveness of centers and institutes; (2) methodologies to collect, calculate and report data to help ensure the reliability and integrity of financial and operational information used in the evaluations; (3) reporting procedures to ensure review results are timely communicated to management; and (4) sunset review and dissolution of a center or institute.
- DoR guidelines require centers to submit a business plan and analysis relating planned pursuits to actual results; however, it does not clearly establish what information is required and when it is to be reported.

Recommendation (UH Academic Affairs/DoR): UH Administration should develop a MAPP requiring DoR and Academic Affairs to implement procedures to help ensure compliance with SAM 06.A.07. The MAPP should clarify roles, responsibilities, and reporting lines to help ensure proper oversight and accountability. The MAPP should require a faculty member's academic unit to initiate and academic supervisor to approve all reimbursements to the faculty member regardless of the funding source, to help prevent duplicate reimbursements to the faculty member.

Management Response (UH Academic Affairs/DoR): Academic Affairs/DoR will collaborate to implement a MAPP to address all of the requirements of SAM 06.A.07 by December 31, 2012. This MAPP will clarify roles, responsibilities and reporting lines to help ensure proper oversight and accountability of centers and institutes.

Recommendation (UHS/UH Controller): MAPP 04.01.03, Vouchers, MAPP 04.02.01A, Travel Paid From State-Appropriated Funds, MAPP 04.02.01B, Travel Paid From Local Funds, and MAPP 05.02.02, Official Functions and Discretionary Expenditures should be modified to require a faculty member's academic unit to initiate and academic supervisor to approve all travel reimbursements to the faculty member regardless of funding source.

Management Response (UH Controller): We will modify MAPP 04.01.03, MAPP 04.02.01A & B, and MAPP 05.02.02 to require a faculty member's academic unit to initiate and academic supervisor to approve all travel reimbursements to the faculty member regardless of funding source. Estimated completion date is August 31, 2012.

Recommendation (DoR): DoR should modify their guidelines to help ensure compliance with SAM, including procedures for defining and reporting criteria to assess effectiveness and procedures to help ensure review results are timely communicated to management.

Management Response (DoR): We will work with the Research and Scholarship Committee to modify our guidelines for governing Centers and Institutes to help ensure compliance with SAM, including procedures for defining and reporting criteria to assess effectiveness and procedures to help ensure review results are timely communicated to management. Estimated completion date is December 31, 2012.

Recommendation (Academic Affairs): Academic Affairs should modify and publish its guidelines to help ensure compliance with SAM, including procedures for defining and reporting criteria to assess effectiveness and procedures to help ensure review results are timely communicated to management.

Management Response (Academic Affairs): Academic Affairs will review, update and publish the guidelines for the operation of Academic Institutes and Centers by August 31, 2012.

Effort Reporting

OMB Circular A-21 requires institutions to maintain an acceptable effort reporting system to provide a reasonable basis for the salary charges to sponsored projects. UH utilizes the "After the Fact Activity Records" method. Effort reports are the source documents to support the after the fact reporting of the activity for which the employee is compensated. To confirm that the activity represents a reasonable estimate of the work performed by the employee, the effort reports must be signed by the employee, principal investigator, or a responsible official having direct knowledge that the work was performed.

Several years ago, DoR assessed the feasibility of implementing an automated effort reporting system. DoR created an effort reporting system in its Research Information System (RD2K). However, the current effort reporting system and related procedures need improvement to help ensure compliance with OMB Circular A-21. During the review, we noted the following:

- Effort reports are not being completed by all employees required to complete effort reports.
- All employees required to complete effort reports are not in the effort reporting system.
- Reconciliations of planned to actual effort are not performed.

- Payroll reallocations are not processed when actual effort recorded in the effort reporting system is significantly different than planned effort.
- DoR has not defined what is considered a significant difference between planned and actual effort.
- TLC² does not coordinate with an employee's academic home department to help ensure effort reporting is completed correctly.

Note: Of the five TLC² employees tested for effort reporting for FY 2011, the lack of effort reports and/or reconciliations between amounts paid and effort reported resulted in potential questioned costs of \$185,077 plus related indirect costs.

Recommendation (DoR): DoR should consider the feasibility of further automation of its effort reporting system with the payroll system, including automated processes for ensuring all research employees paid with grant funds that require effort reporting are in the effort reporting system and for reconciling salary charged to a grant to effort reported. DoR should also establish monitoring procedures to help ensure salary charges are consistent with effort reported, including the processing of payroll reallocations, when appropriate.

Management Response (DoR): DoR is leading the effort to implement a new automated effort reporting system that will interface with our current PeopleSoft payroll module and PeopleSoft Grants Management. Estimated implementation date is August 31, 2013.

We are now ensuring that the current effort system is utilized by all responsible parties. This process will entail a rigorous monitoring of all compliance issues and generating reports leading to escalating notices on delinquent effort reports. Notifications will be forwarded first to the PI and DBA, then to department chairs, and finally to college deans. If compliance is not achieved in a timely manner, DoR will deem those payroll charges as unallowable expenses due to the lack of supporting documentation. These unallowable expenses will be removed from those sponsored awards in question. DoR may decline all administrative services to and withhold IDC for those noncompliant PIs until full compliance is achieved. Our aim is for all payroll transactions to be allowable in accordance with OMB Circular A-21.

In addition, DoR is currently developing a monitoring and compliance program, including the current effort reporting process, with management reports and escalating said reports to university administration. Estimated completion date is August 31, 2012.

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON
TEXAS LEARNING AND COMPUTATION CENTER
OPPORTUNITY FOR IMPROVEMENT**

TLC² Services

The mission of TLC² is very broad and is not limited to supporting and conducting high performance computational research through facilities and services. TLC²'s mission includes fostering research & education in information and communication technologies by providing a support environment, facilitating faculty research efforts not performed "in-house" by TLC², and providing research outreach and communication services. The TLC² Co-Directors stated that the decentralized environment permits a clear focus on research to provide specialized services, eliminate peaks and valleys in services and costs, and offer researchers flexibility in operating systems and risk environments. However, decentralization also creates an environment where services may overlap and result in duplication of effort.

In support of their mission, TLC² performs activities and provides services that are also or may be performed by other university departments. Some computational resources provided by TLC² are also provided by the UH IT High Performance Computing Group. TLC² management asserts the following: "Many of the resources are unique, but more importantly, the ways in which the resources we provide can be used by investigators is unique. We create an environment for computational research, not simply research using computation. These are fundamentally different and important aspects of university research computing. The failure to understand this distinction and its overall importance to the university's mission would be destructive to both computational research, but also to non-computational research which benefits tremendously from the advances made through computational research." The grants administrative services provided by TLC² are also provided by the academic departments. TLC² also conducts conferences, symposia, workshops and community outreach activities which in some cases have no direct connection to high performance computational or information and communication technology research.

TLC² operations are primarily funded by state funds, which were originally funded by a state line item, and by credit splits. Credits splits are derived through negotiations between TLC² and faculty members wanting to use the services provided by TLC². An agreed upon credit split percentage is determined, and then TLC² receives the agreed upon percentage of indirect costs from those grants. No fees are charged for the services provided by TLC²; however, researchers may pay for certain expenditures that benefit TLC² from grant or other funds. In addition, when TLC² is asked by a Principal Investigator to be the primary department for a grant, all revenue and expenditures related to the grant is recorded in TLC², not the faculty member's academic department.

Currently, there are no metrics available to evaluate the services provided by TLC². As noted in the significant engagement observation relating to Oversight of Centers and Institutes, UH does not currently have a policy or guidelines requiring such action. The Texas State Auditor's Office Guide to Performance Measure Management states that a performance measure's definition establishes both an explanation of the measure and the methodology for its calculation. Having defined performance goals and measures is not only a good management practice, but also provides a means to help determine whether such services are being performed effectively.

Recommendation (DoR and Academic Affairs): DoR and Academic Affairs should evaluate the services performed by TLC² that are also performed by other UH departments to determine the most effective way of providing these services and to determine the appropriate funding model for providing these services.

Management Response (DoR): The Research and Scholarship Committee is tasked with evaluating services performed by university centers and institutes and providing a recommendation to the Vice Chancellor/Vice President for Research and Technology Transfer consideration. We plan to evaluate TLC² by August 31, 2013.

Management Response (Academic Affairs): Academic Affairs will work with the Division of Research and the Division of Administration and Finance to review the computing and administrative services provided by TLC² and determine if improvements can be made in the efficiencies of services provided, by August 31, 2012.

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON
TEXAS LEARNING AND COMPUTATION CENTER**

COMPLIANCE MATRIX	
Compliance Area	
Management Oversight	Ø
Operational Activities	Ø
Policies, Procedures, Required Training, and Reporting	✓
Cost Center Management	(1)
Payroll	(2)
Human Resources	✓
Change Funds And Cash Receipts	(1)
Procurement And Travel Cards	(1)
Departmental Expenses	(6)
Contract Administration	(1)
Property Management	(3)
Departmental Computing	(3)
Scholarships	N/A
Incidental And Lab Fees	N/A
Research	(3)

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

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON
TEXAS LEARNING AND COMPUTATION CENTER
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 action plans to address the areas 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.

MANAGEMENT OVERSIGHT/OPERATIONAL ACTIVITIES

(See Significant Engagement Observations)

OPERATIONAL ACTIVITIES

- Lack of oversight of the Center operations. *

COST CENTER MANAGEMENT

- Cost center verification logs were not initialed by the cost center managers.

PAYROLL

- Time and effort reports were not dated.
- A time and effort report was not submitted to Payroll in a timely manner.

CHANGE FUNDS AND CASH RECEIPTS

- A cash receipt was not deposited in a timely manner.

PROCUREMENT AND TRAVEL CARDS

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

DEPARTMENTAL EXPENSES

- Documentation uploaded to the Financial System contained an employee's credit card number.
- Travel related expenses were coded incorrectly.
- A Travel Request Form was not properly approved.
- Direct reimbursements were not approved by the employee's supervisor or unit head. *
- Expenses were reimbursed to employees more than once. *
- Expenses for reimbursement were submitted to the business office more than 60 days after the date of the expense.

CONTRACT ADMINISTRATION

- A contract coversheet was not timely signed.

PROPERTY MANAGEMENT

- Donated assets were not included on the property inventory nor were Gift Transmittal Forms always completed. *
- Equipment purchased by other University departments was not included on the departmental property inventory. *
- All assets were not tagged and listed on the property inventory.

DEPARTMENTAL COMPUTING

- An annual review of access to computer resources was not performed. *
- User access authorization forms were not retained by the department and also contain Social Security numbers. *
- A server room did not have adequate environmental controls.

RESEARCH

- Certain expenditures charged to grant cost centers do not appear to be allowable. *
- Effort reporting is not being accounted for appropriately. *
- Grant cost centers had deficit budgetary balances.*

**University of Houston System
Internal Auditing Department**

**University of Houston
Texas Learning and Computation Center
Background Information**

The Director provided the following background:

Established in September 1999 with funding from the Texas Legislature and nearly \$4 million from NASA, the Texas Learning and Computation Center (TLC²) brings diverse research interests on campus together as multidisciplinary projects that conduct research in or benefit from advanced computing and information technologies and related expertise. The center also promotes innovative collaborative projects in education and training to improve our understanding of the world around us, as well as the technical skills of tomorrow's workforce.

The vision upon which TLC² was conceived was based on the knowledge that many of the current and future challenges are complex problems that require a multi-disciplinary approach. The nature of these problems requires that researchers interact at the frontiers and nexus of different disciplines, changing existing disciplines and potentially creating and forming new ones to meet the dynamic challenges posed by society, science and the drive for innovation. The teams of scientists, scholars and industry leaders addressing these challenges increasingly are comprised of both national but international participants. Computing, storage, visualization, networking and other information technologies are critical tools in successfully finding solutions to many of the most challenging problems currently facing us, allowing us to, capture valuable information about human behavior and other aspects of issues faced by society. Furthermore, in this rapidly changing world, cross disciplinary research plays a vital role in the education of the future workforce.

The mission of TLC² is to foster multidisciplinary research, education, and training in computational and computer science at UH. TLC²'s mission includes stimulating and enhancing 1) research in disciplines that benefit from information technologies in a broad sense, such as computing, networking, visualization, and data bases; 2) education in both the design and use of such technologies; 3) training related to operations and use of such technologies; and 4) outreach to communicate the benefits of the technologies to K-12 schools, community colleges, and the public at large and to stimulate the young to pursue education and careers with an emphasis on STEM fields. In addition, the Center actively engages the use of technology in the arts and digital humanities to enhance innovation productivity and new learning paradigms. One of TLC²'s goals is to stimulate the growth and understanding of technology in the local and global communities. By strengthening UH's and Texas' leadership roles in both simulation and virtual environment technologies, TLC² also plays an important part in UH's goal of being a catalyst in the National Competitiveness.

To accomplish these missions TLC² seeks to enhance the Principal Investigators (PIs) and associated centers' daily operations covering the range from early stage investigator ideas to established, competitively funded multi-investigator and multi-institutional research projects,

Laboratories, Centers and Institutes. The relationship of TLC² to its members is one of mutual support, rather than that of an exclusive resource to a user.

Inherent to the success of the TLC² mission is the unique collection of talent and expertise of its staff. The TLC² complex is a state-of-the art telecommunications and learning center. Located in the University's Philip Guthrie Hoffman Hall, the TLC² complex includes computational research laboratories, a visualization research suite with virtual reality equipment, a conference room with displays, and two interactive distance-learning classrooms. The high-performance networking and video conferencing equipment also allows UH scientists to interact with colleagues worldwide on both computational and visualization research data

In addition to cyber-infrastructure support, the TLC² team provides pre-award support, post-award management, and assistance with dissemination of results. TLC² actively supports outreach and education both at the undergraduate and graduate level through seminars, workshops, symposia, and conferences, and offers further educational support through access to its facilities. As part of its outreach efforts TLC² also offers training in state-of-the-art methodologies and technologies within its area of expertise to high-school and community college teachers and students. Training workshops conducted by TLC² affiliated faculty using TLC² high-tech resources and teaching facilities typically are dominated by external participants, both national and international, with some participation from industry. Many of these educational and training opportunities have had industrial sponsorships.

However, it is not merely the computing resources and services provided by TLC² that are unique. Even if these resources were completely redundant with resources provided by other units, the purposes to which faculty and students can put those resources are what distinguish TLC² as being unique. This distinction is fundamental, and its importance to the university's success cannot be overstated. TLC² fundamentally views itself as a resource, better expressed as a collection of talent and a collection of capabilities that allows it to be dynamic and responsive to the needs of individual faculty and student researchers.

Until recent reductions in State appropriations, TLC² was in a position to provide seed funds and incubation resources to help in the initial stages of a research program, with the Center for Biomedical and Environmental Genomics (CBEG) and the research groups of Drs Ioannis Pavlidis and Dr. Ioannis Kakadiaris being good examples of successes to which TLC² has contributed in several ways (infrastructure, seed funds, pre-award and post-award services, outreach).

- 1) The impact of its research and projects spans the globe. The computational resources that TLC² has provided its affiliated researchers have at various times been nationally and internationally recognized as for instance remarked by a member of Lawrence Livermore National Laboratories "you have a computing capability that does not now exist in the National Labs!!" and resulted in award winning research, such as the 2008 First Prize in the Human Impact category of the Itanium Solutions Alliance worldwide competition. TLC² also enables Student Success through its services which help to train students in effective communication of scientific information and development of presentation skills which ensure that UH students' research efforts become known by a wider audience. Several students have won competitive awards both locally and nationally.

TLC² coordinates and leads interactions with external organizations and actively stimulates education and training. Through its member centers, TLC² facilitates collaborations among some of the world's finest minds to address issues related to molecular structure, data compression, visualization technology, signal processing, fundamental physics and geophysical phenomena, engineering design and medical research. Member current projects include:

- Neuroplasticity, the capacity of the adult brain to adapt its structure to shifting behavioral and environmental demands.
- Functional brain mapping and the interplay between biosignals and information processing in the brain and development of new computational tools for the diagnosis and treatment of neurological disorders, as well as the characterization, quantification, and visualization of cancerous tumors.
- Development of a comprehensive image analysis framework that generates improved algorithms for analyzing multidimensional data in search of meaningful information allowing researchers and others to take full advantage of the multidimensional data sources available to extract relevant information in an unobtrusive, reliable, accurate, and timely manner.
- Unobtrusive and sustained monitoring of physiological variables embedded imaginatively in psycho-physiological, biomedical, and behavioral paradigms by sensing through thermal imaging or wearable transducers.
- Multispectral imaging for chemical profiling, object tracking and recognition in distributed camera environments, and learning paradigms for performance prediction.
- Fundamental and applied research on the digital paradigm for information transmission, manipulation, and extraction including developing and testing a new formulation of the fundamental mathematical problem of inverse scattering, which underlies all types of digital imaging, including MRI, CT scan, x-ray, ultrasound, and sonar of critical importance to two of our society's most vital industries—petroleum and medicine.
- Air chemistry and meteorological monitoring in the Houston-Galveston area through a network of environmental towers feeding data through a dedicated communications network to UH Main campus for air quality and environmental research and for web publishing.
- Development of solutions to seismic exploration and production problems that can exert a significant positive impact on our ability to locate and produce hydrocarbons specifically facilitating dept imaging through the removal of free surface and internal multiples as well as inverting primaries eliminating the traditional need for subsurface information above the target, including a velocity model.
- Development of methodologies, software tools, and libraries to address efficient use of high performance computing platforms including energy efficient design thereof.

- The study the physics of strongly interacting matter at extreme energy densities where the formation of a new phase of matter, the quark-gluon plasma that is theorized to have existed in the first microsecond of the universe during the Big Bang is expected to be produced. The existence of such a phase and its properties are key issues. The researchers are carrying out a comprehensive study of the hadrons, electrons, muons, and photons produced in the collision of heavy nuclei to address these issues.
- Computer networks and systems intrusion detection for identifying and responding to malicious activity targeted at computing and networking resources.
- Research at the intersection of machine learning, statistics, data mining, physics, and astronomy for automatic geomorphic mapping and analysis of land surfaces using pattern recognition for fast, objective and transparent conversion of topographic data into knowledge about land surfaces.
- Research to increase knowledge about the psychological, educational, and developmental behaviors of adults and children using advanced research methods to develop statistical models for decision making.
- Advancing the fundamental understanding and development of efficient, robust solutions for cyber physical systems through research in core system building blocks, data, network management tools and services, mathematical principles, and application of cyber physical systems in scientific, industrial, and healthcare disciplines.
- Aiding in the development of particle transport codes that are used by NASA to design spacecraft shielding and to assess the radiation doses taken by astronauts in space.

Budget/Financial Summary:

During fiscal year 2012, with a staff of 41 FTE, TLC² administered 87 cost centers with an operating M&O budget of \$2,087,567.

The following table presents the fund balance reconciliation for TLC² for FY 2011:

Beginning Fund Balance (9/1/2010)	\$ 1,695,317
Revenues	3,655,401
Expenditures	(5,410,710)
Transfers/Other	1,923,489
Ending Balance (8/31/2011)	<u>\$ 1,863,497</u>

Note: During FY 2011, sponsored research revenues and expenditures that do not fund operations of TLC² total \$3,598,473 and \$3,165,903, respectively. M&O expenditures for TLC² were \$2,244,807.

UNIVERSITY OF HOUSTON
TEXAS LEARNING AND COMPUTATION CENTER
SUMMARY OF REVENUES AND EXPENDITURES

<u>Account</u>	<u>Description</u>	<u>FY 2011</u>	<u>FY 2010</u>
<u>Revenue</u>			
41100-41499	State Appropriations	\$ (33,501)	\$ 0
41600-41899	Federal Grants & Contracts	(2,777,322)	(2,579,221)
41900-42099	Federal Pass Through Grants/Contracts	(33,366)	(70,949)
42100-42299	State Grants & Contracts	(56,760)	(17,559)
42300-42499	State Pass Through - Other State Agencies	0	(149,860)
42700-43199; 44400-44428; 44440	Private Gifts, Grants and Cont	(697,523)	(490,922)
43600-43630; 43634-43999	Sales & Services - E & G	(1,959)	8,697
50050-50099	Recovered Costs	(54,970)	(124,940)
Total Revenue		<u>\$ (3,655,401)</u>	<u>\$ (3,424,754)</u>
<u>Cost of Goods Sold</u>			
50000-50049	Cost of Goods Sold	\$ 0	\$ 0
Total Cost of Goods Sold		<u>\$ 0</u>	<u>\$ 0</u>
<u>Payroll</u>			
50100-50999	Salaries & Wages	\$ 3,214,089	\$ 3,287,179
51000-51399	Fringe Benefits	225,643	236,493
51400-51999	Claims & Payment	0	0
Total Payroll		<u>\$ 3,439,732</u>	<u>\$ 3,523,672</u>
<u>M & O</u>			
52000-52199	Professional Services	\$ 131,703	\$ 107,244
52200-52399	General Services	22,484	77,740
52400-52499	Academic Service	0	3,730
52500-52599	Printing, Copying, & Reproduction	2	6,778
52600-52799	Utilities & Sanitation	247	0
52800-52999	Communication & Transportation	66,265	30,903
53000-53499	Advertising Promotion & Public	39,467	43,360
53500-53599	Rental Lease & Royalties	32,944	47,361
53700-53799	Routine Repair	23,916	14,869
53800-53849	Pass Through	173,694	196,224
53850-53899	Contracting Services	4,454	4,499
53900-53999	General Supplies	115,108	94,381
54000-54099	Lab Research Supplies	6,913	14,942
54100-54199	Health & Clinical Support	0	818
54200-54299	Construction Expenses	0	50
54350-54449	Parts & Furnishing	109,600	69,675
54450-54549	Misc Supplies & Material	9,244	272
54550-54699	Legal Services	5,670	410
54700-54799	Financial Tax & License Cost	651	53
54800-54899	Other Recurring Expenses	52,293	23,183
54900-54999	Employee Expenses	51,039	52,565
55000-55199	Special Program & Events	9,130	8,961
56000-56499	Travel	136,188	148,124
56500-56599	Contracts & Grants	676,899	757,242
Total M&O		<u>\$ 1,667,914</u>	<u>\$ 1,703,383</u>
<u>Capital Outlay</u>			
58000-58999	Capital Outlay	\$ 303,064	\$ 365,211
Total Capital Outlay		<u>\$ 303,064</u>	<u>\$ 365,211</u>
Total Cost of Goods Sold, Payroll, M&O and Capital Outlay		<u>\$ 5,410,710</u>	<u>\$ 5,592,266</u>

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON

NON-COLLEGE SPECIFIC ENDOWMENTS

REPORT NO. AR2012-18

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON
NON-COLLEGE SPECIFIC, ENDOWMENTS**

BACKGROUND:

We performed a review of Non-College Specific endowments that are managed by various departments throughout the university. 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, 2011, the University of Houston System endowment market value was \$496,668,568, consisting of 1,387 separate endowments. Endowment income distributed during fiscal year 2011 was \$12,443,005. The Non-College Specific endowments totaled 133 with a market value of \$131,058,514 and endowment income distributed during the fiscal year was \$2,564,186.

OBJECTIVES:

The objectives of our review were as follows:

1. Determine whether the departments are managing endowment funds effectively and efficiently under an adequate system of internal controls.
2. Determine whether the departments are 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, all departments are managing endowment funds effectively and efficiently and are complying with the terms of the endowment agreements. Although we noted no matters we considered to be significant engagement observations, we noted that funds from certain

endowments have not been expended for several years and instances of non-compliance with certain university policies and procedures. Management is in the process of addressing these opportunities for improvement.

Appendix A contains areas where there are opportunities for improvement, recommendations that will enhance the control environment, management's responses, instances of non-compliance, and observations noted during the audit.

Don F. Guyton
Chief Audit Executive
April 12, 2012

APPENDIX A

OPPORTUNITIES FOR IMPROVEMENT

Josie Taylor Endowment – Available Funds

The endowment was established for the purpose of a revolving loan fund for students. However, during the audit we determined that funds have not been used for more than 10 years. As of March 31, 2012, \$428,477 is available in fund balance.

Recommendation: The Treasurer's Office will work with University Advancement and General Counsel to determine how to utilize the funds available from this endowment.

Management's Response: The Treasurer's Office will review this endowment with University Advancement and General Counsel and determine an appropriate use of the funds by September 30, 2012.

UH Quasi Endowment – Available Funds

The endowment was established for providing funds at the President's discretion. However, during the audit we determined that funds have not been used for more than 10 years. As of March 31, 2012, \$282,898 is available in fund balance. During the audit, the Division Business Administrator for the President's Office informed us that the funds will be used for Wortham House operations.

Non-Compliance with University Policies

During the review of Cullen endowment expenditures, we noted the Department of Biology and Biochemistry had the following instances of non-compliance with university policies.

- The travel agenda and trip report for one traveler relating to one foreign trip was not submitted to the appropriate VP or designee following the trip. (UH Travel Policy Changes for expenditures incurred after May 8, 2009; MAPP 04.02.01B §IV.C).
- The travel voucher for a trip made by the traveler was prepared more than 60 days after the travel date and was not submitted to the Tax Office (MAPP 04.02.01B §IX.C.1 & C.4).

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON

HILTON HOTEL

REPORT NO. AR2012-19

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON
HILTON HOTEL**

BACKGROUND:

The economic size for a full service hotel is at least 150 rooms. The 86 rooms of the Hilton University of Houston reinforce the fact that it was built in 1974 as a training hotel, not a profit center. The hotel was closed in fall of 2009 and went through a major renovation costing \$13.5 million. Due to construction, in FY 2009, the hotel operated at a deficit of \$875,403, and in FY 2010 a deficit of \$1,103,880. During FY 2011, the hotel operated at a surplus of \$775,235, and as of March 2012, the hotel is operating at a surplus of \$514,769.

The hotel has since raised \$1.7 million in endowments and over \$150,000 in current funds to support student workers in the hotel and ultimately support the hotel. Currently, 67% of the employees in the hotel are students. The hotel's customer satisfaction scores are among the top 10% and often the top 5% of all Hiltons Worldwide. The hotel is currently functioning as intended – a training hotel.

OBJECTIVES:

The objectives of our review were as follows:

1. Determine whether there are procedures to help ensure that hotel operations are being efficiently and effectively managed under an adequate system of internal controls and in compliance with the terms and conditions of the contract.
2. Determine whether there are procedures to help ensure that food service operations are being efficiently and effectively managed under an adequate system of internal controls and in compliance with the terms and conditions of the contract.

SCOPE OF WORK:

We interviewed personnel responsible for managing the hotel, reviewed policies and procedures, reviewed financial documentation, analyzed contract settlements, and performed other audit procedures, as appropriate.

CONCLUSION:

In our opinion, there are procedures to help ensure that hotel and food service operations are being efficiently and effectively managed under an adequate system of internal controls and in compliance with the terms and conditions of the contract. Although we noted no matters we considered to be significant engagement observations, we noted that procedures for the settlement process with Aramark have not been updated in several years. Management is in the process of modifying these procedures.

Appendix A contains an area where there is an opportunity for improvement, a recommendation that will enhance the control environment, and management's response.

Don F. Guyton
Chief Audit Executive
March 20, 2012

APPENDIX A

OPPORTUNITY FOR IMPROVEMENT

Aramark Settlement Process/Reconciliation

Aramark provides food services, and as part of the Food Service Management Agreement, provides the Hotel with a monthly billing and operating statement. On a monthly basis, the Hotel Business Office performs a detailed settlement process/reconciliation where it reviews the invoice, operating statement, and supporting documentation submitted by Aramark to help ensure the accuracy of the invoice and operating statement. However, the Hotel has not updated written procedures for this settlement process/reconciliation since 1997.

Recommendation: The Hotel should modify written procedures for its settlement process/reconciliation to help ensure accuracy of the invoices and operating statements submitted by Aramark.

Management's Response: The Hotel Business Office will review the current written procedures for its settlement process/reconciliation with Aramark, and update them as necessary, to help ensure accuracy of the invoices and operating statements submitted by Aramark.

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON-VICTORIA
INFORMATION SECURITY STANDARDS

REPORT NO. AR2012-20

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON-VICTORIA
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-Victoria 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-Victoria’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 engagement observations, we noted that monthly information security incident reports are not always submitted to the Department of Information Resources. The compliance matrix below lists areas tested, whether the campus fully complies with TAC 202 rules, and 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	Fully Complies
Information Resources Security Safeguards	Fully Complies
Security Incidents	1
User Security Practices	Fully Complies
Removal of Data from Data Processing Equipment	Fully Complies

Don F. Guyton
Chief Audit Executive
March 14, 2012

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON-CLEAR LAKE INFORMATION SECURITY STANDARDS

REPORT NO. AR2012-21

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON-CLEAR LAKE
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-Clear Lake 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-Clear Lake’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 noted that the University is still in the process of developing its Business Continuity Plan. The compliance matrix below lists areas tested, whether the campus fully complies with TAC 202 rules, and 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
February 29, 2012

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON-VICTORIA

PRESIDENT'S OFFICE
DEPARTMENTAL REVIEWS

REPORT NO. AR2012-22

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON-VICTORIA
PRESIDENT'S OFFICE
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 six departmental reviews in the President's Office. 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 President's Office was not in compliance with certain policies. Management agreed to implement action plans for certain areas 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 President's Office:

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

Don F. Guyton
Chief Audit Executive
April 5, 2012

**University of Houston System
Internal Auditing Department**

**University of Houston-Victoria
President's Office
Departmental Reviews**

COMPLIANCE MATRIX

Compliance Area	President's Office	Athletics	Human Resources	Special Events	Training and Development	University Advancement
Management Oversight	✓	✓	✓	✓	✓	✓
Operational Activities	N/A	(1)	N/A	N/A	N/A	N/A
Policies, Procedures, Required Training, And Reporting	✓	(1)	✓	✓	✓	✓
Cost Center Management	✓	✓	✓	✓	✓	✓
Payroll	✓	(1)	✓	✓	✓	✓
Human Resources	✓	✓	✓	✓	✓	✓
Change Funds And Cash Receipts	✓	✓	N/A	✓	✓	(2)
Procurement And Travel Cards	(1)	(2)	(1)	✓	✓	✓
Departmental Expenses	✓	✓	✓	✓	✓	✓
Contract Administration	N/A	✓	(1)	✓	N/A	N/A
Property Management	✓	✓	✓	✓	✓	✓
Departmental Computing	✓	✓	✓	✓	✓	✓
Scholarships	N/A	✓	N/A	N/A	N/A	N/A
Incidental And Lab Fees	N/A	N/A	N/A	N/A	N/A	N/A
Research	N/A	N/A	N/A	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**

**UHV PRESIDENT'S OFFICE
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.

PRESIDENT'S BUSINESS OFFICE

Procurement and Travel Cards

- Taxable employee awards (gift cards) were not reported to Payroll.

ATHLETICS

Operational Activity

- The department does not have a current Student-Athlete's Handbook.*

Policies, Procedures and Required Reporting

- The department does not have a desk reference manual.*

Payroll

- A time and effort report was not signed by the employee.

Procurement and Travel Cards

- A Travel Request Form was not approved.
- An expense report was not properly approved.

HUMAN RESOURCES

Procurement and Travel Cards

- Taxable employee awards (gift cards) were not reported to Payroll.

Contracts

- Contracts were not signed prior to the contract effective dates.

UNIVERSITY ADVANCEMENT

Change Funds and Cash Receipts

- Checks were not made payable to the university.
- Receipts totaling \$100 or more were not deposited within one working day after receipt.

**University of Houston System
Internal Auditing Department**

**University of Houston-Victoria
President's Office
Background Information**

Background provided by the President's Office:

The Office of the President includes direct oversight of the following departments:

- **Advancement** - supports the mission of the university by generating private contributions to supplement the university's state and federal revenues for capital, operating, and student assistance funds. This office also oversees alumni relations.
- **Athletics** - sustains the athletic programs of the university through management of each sports program, from recruitment of athletes and coaches to managing the day-to-day tasks of eligibility, scheduling and public relations of the programs.
- **Human Resources** - recruits and retains a qualified and diverse workforce, and also monitors compliance with the Affirmative Action Program. Additionally, this office oversees training and development for the university.
- **Marketing** - serves the university by communicating the UHV story to internal and external audiences. The marketing team develops, executes and monitors public relations and marketing plans to ensure the best possible return on the investment of university resources. Marketing was moved in 2011 from the Division of Administration and Finance to the Office of the President.
- **Special Events** - serves as a liaison to the university's external constituents, conducting events that draw members of the community, as well as students, to the UHV campus for events that promote good internal and external relationships. This unit also oversees commencement and convocation and is supervised by the Chief of Staff, who reports to the President.

Recent Accomplishments Include:

- Created a Community Planning Committee for communication and feedback related to new facilities plan.
- Began discussions on cross-institutional projects with Victoria College.
- Successful Texas Workforce Commission (Civil Rights Division) Audit – Agency Certified.
- 99.6% UHV FY12 completion rates for mandatory training.
- Developed and coordinated 3,709 contact hours of internal training in FY11 for UHV employees, a 46% increase over the previous year.
- Received 13 ADDY awards, given by the American Advertising Federation, for creative marketing excellence.
- Introduced new president to the community and university through a variety of events.

- Implemented a second spring commencement ceremony to better accommodate graduates and their guests.
- Increased alumni participation on UHVconnect, a social networking site, to 2,547 members, reflecting a 38% increase.
- Held first Night of the Jaguar fundraiser, resulting in \$40,000 for athletic scholarship support.

Budget/Financial Summary:

During fiscal year 2012, with a staff of 31 FTE, the President’s Office administered 133 cost centers with an operating M&O budget of \$4,600,000.

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

Beginning Fund Balance (9/1/2010)	\$ 1,614,435
Revenues	1,964,428
Expenditures	(3,285,604)
Transfers/Other	1,823,915
Ending Balance (8/31/2011)	<u>\$ 2,117,174</u>

UNIVERSITY OF HOUSTON - VICTORIA
PRESIDENT'S OFFICE
SUMMARY OF REVENUES AND EXPENDITURES

<u>Account</u>	<u>Description</u>	<u>FY 2011</u>	<u>FY 2010</u>
<u>Revenue</u>			
40500-40699	Student Service Fees	\$ (1,534,528)	\$ (1,273,866)
40700-40999	Other Fees	(6,250)	(250)
55500-55999;56700-57999	Waivers & Expenses	352	3,555
41000-41099	Remissions	2,521	0
42700-43199; 44400-44428; 44440	Private Gifts, Grants and Cont	(214,876)	(36,679)
43300-43499	Other Investment Income	0	(8,550)
43500-43599	Endowment Income Distribution	(27,808)	(31,511)
43600-43630; 43634-43999	Sales & Services - E & G	(81,142)	(102,859)
43631-43633; 44000-44399	Sales & Services - Auxiliary	(76,485)	(45,798)
50050-50099	Recovered Costs	(26,213)	(19,078)
Total Revenue		<u>\$ (1,964,428)</u>	<u>\$ (1,515,036)</u>
<u>Cost of Goods Sold</u>			
50000-50049	Cost of Goods Sold	\$ 0	\$ 0
Total Cost of Goods Sold		<u>\$ 0</u>	<u>\$ 0</u>
<u>Payroll</u>			
50100-50999	Salaries & Wages	\$ 1,719,997	\$ 1,453,551
51000-51399	Fringe Benefits	166,881	131,416
Total Payroll		<u>\$ 1,886,879</u>	<u>\$ 1,584,967</u>
<u>M & O</u>			
52200-52399	General Services	\$ 70,341	\$ 77,329
52400-52499	Academic Service	7,408	8,143
52500-52599	Printing, Copying, & Reproduction	44,619	47,651
52800-52999	Communication & Transportation	112,293	44,848
53000-53499	Advertising Promotion & Public	334,343	402,880
53500-53599	Rental Lease & Royalties	150,951	105,089
53700-53799	Routine Repair	6,676	5,739
53850-53899	Contracting Services	5,256	7,214
53900-53999	General Supplies	96,347	55,035
54100-54199	Health & Clinical Support	3,289	1,505
54300-54349	Facilities & Ground Support	573	112
54350-54449	Parts & Furnishing	30,739	16,174
54450-54549	Misc Supplies & Material	465	1,434
54550-54699	Legal Services	56,060	68,892
54700-54799	Financial Tax & License Cost	5,666	474
54800-54899	Other Recurring Expenses	105,770	241,498
54900-54999	Employee Expenses	24,705	37,243
55000-55199	Special Program & Events	16,377	19,887
55200-55299	Interscholastic Events	579	477
55300-55499	Financial Aid	151,510	111,999
56000-56499	Travel	172,551	123,317
Total M&O		<u>\$ 1,396,517</u>	<u>\$ 1,376,941</u>
<u>Capital Outlay</u>			
58000-58999	Capital Outlay	\$ 2,208	\$ 0
Total Capital Outlay		<u>\$ 2,208</u>	<u>\$ 0</u>
Total Cost of Goods Sold, Payroll, M&O and Capital Outlay		<u>\$ 3,285,604</u>	<u>\$ 2,961,908</u>

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM

UH SYSTEM ADMINISTRATION
ENDOWMENTS

REPORT NO. AR2012-23

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON SYSTEM
UH SYSTEM ADMINISTRATION, ENDOWMENTS**

BACKGROUND:

We performed a review of UH System Administration endowments that are managed by various departments throughout the university. 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, 2011, the University of Houston System endowment market value was \$496,668,568, consisting of 1,387 separate endowments. Endowment income distributed during fiscal year 2011 was \$12,443,005. The UH System Administration endowments totaled 24 with a market value of \$104,961,611 and endowment income distributed during the fiscal year was \$4,099,602.

OBJECTIVES:

The objectives of our review were as follows:

1. Determine whether the departments are managing endowment funds effectively and efficiently under an adequate system of internal controls.
2. Determine whether the departments are 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.

CONCLUSION:

In our opinion, all departments are managing endowment funds effectively and efficiently and are complying with the terms of the endowment agreements. Although we noted no matters we considered to be significant engagement observations, we noted that funds from certain endowments have not been expended for several years, endowment agreements have not been reviewed for reasonableness and completeness, certain endowment cost centers do not contain appropriate fund and/or program codes, and instances of non-compliance with certain university

policies and procedures. Management is in the process of addressing these opportunities for improvement.

Appendix A contains areas where there are opportunities for improvement, recommendations that will enhance the control environment, management's responses, instances of non-compliance, and observations noted during the audit.

Don F. Guyton
Chief Audit Executive
April 12, 2012

APPENDIX A

OPPORTUNITIES FOR IMPROVEMENT

Endowment Agreements

University Advancement works with university personnel and donors to create formal endowment agreements between the donor and the university with respect to the donor's gift. We were informed that development officers are in continuous talks with the donors in order to finalize agreements, and as a result there are often delays in finalizing the agreements. If documentation is unclear, University Advancement prepares a Memorandum of Understanding for the University's use of funds for General Counsel's review and approval. University Advancement informed us that they plan to start the review of system endowments after they have finalized UH endowment agreements.

Recommendation: University Advancement should review the system endowment agreements and update agreements or prepare memorandums of understanding, as necessary.

Management's Response: University Advancement will review the system endowment agreements and update agreements or prepare memorandums of understanding, as necessary, by August 31, 2013.

Cost Center Fund and Program Codes

Currently, the Treasurer's Office works with departments to help ensure correct fund and program codes are used when establishing an income beneficiary cost center. Annually, the Treasurer's Office requests departments to review and update their income beneficiary cost center information to help ensure its accuracy. During the review, we noted 22 income beneficiary cost centers did not contain accurate fund and/or program codes at the various components.

Recommendation: The Treasurer's Office should work with personnel at the various components to help ensure income beneficiary cost centers contain accurate fund and/or program codes.

Management's Response: The Treasurer's Office will continue to work with the components to complete the task of correcting the inaccurate fund and/or program codes on the income beneficiary cost center. This task will be completed by August 31, 2013.

Available Funds

We determined that the fund balances for two endowments, General Purpose and Dolores Welder Mitchell, has been accumulating for more than 10 years. The fund balance for the

General Purpose and Dolores Welder Mitchell endowments, as of March 31, 2012, was \$781,562 and \$1,714,940, respectively.

The General Purpose endowment was established to be used at the discretion of the Chancellor; however, no expenditures were made by the Chancellor's Office for more than 10 years. The Dolores Welder Mitchell endowment was established to be used to carry on one or more specific substantive projects, activities, or services which the university could otherwise not afford to provide, but not to be used for operating expenses. Currently, this endowment is used for merit based scholarships at UH and UHV, and other projects as determined by the Chancellor. An annual distribution of \$75,000 for scholarships is being transferred to the UH and UHV cost centers to award scholarships; however, there has been no expenditures made by the Chancellor's Office for more than 10 years.

We were informed that these funds are held at the institutional level and are available for the Chancellor's use. The Division Business Administrator for the Chancellor/President's Office has been made aware of these endowments and the available funds. The Division Business Administrator for the Chancellor/President's Office informed us that she will discuss these endowments and the available funds with the Chancellor. In addition, the Division Business Administrator will consider the availability of these funds when preparing the annual budget for the Chancellor/President's Office.

Non-Compliance with University Policies

During the review of Cullen endowment expenditures, we noted the Department of History and the African American Studies Program had the following instances of non-compliance with university policies:

- The purpose or benefit for one Travel Request was not related to a trip the traveler took. (MAPP 04.02.01B §IV.B.5)
- An additional travel request was not signed by the certifying signatory prior to the traveler's travel date. (MAPP 04.02.01B §IV.A; §IV.B.9)
- The department did not submit a travel reimbursement within 15 days to Accounts Payable. (MAPP 04.02.01B §IX.C.5)
- A P-Card expense report was not signed timely by the preparer or certifying signatory. (MAPP 04.01.01 P-Card Guidelines §IV.C)
- A Travel Card expense report was not signed timely by the preparer or certifying signatory. (MAPP 04.02.05 Travel Card Guidelines §IV.C)

Note: Expense reports not being signed timely was previously reported as an instance of non-compliance in Internal Audit Report #AR2010-07, UH College of Liberal Arts and Social Sciences, Departmental Review.

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON

NATIONAL RESEARCH UNIVERSITY
FUND ELIGIBILITY

REPORT NO. AR2012-24

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON
NATIONAL RESEARCH UNIVERSITY FUND**

BACKGROUND:

Texas Education Code (TEC) Subchapter G, National Research University Fund (NRUF), was enacted to allocate appropriations from the fund to provide a dedicated, independent, and equitable source of funding to enable emerging research universities in Texas to achieve national prominence as major research universities.

Within Subchapter G, TEC §62.145 - 62.146 directs the Texas Higher Education Coordinating Board (THECB) to adopt standards for the purposes of determining an institution's eligibility for funding from NRUF and authorizes the THECB to adopt rules for the standard methods of accounting and standard methods of reporting information for the purpose of determining eligibility of institutions to receive funds under the NRUF. The THECB is required to certify to the comptroller and the legislature verified information relating to criteria used in determining the eligibility of institutions. The information submitted to the THECB by institutions for purposes of establishing eligibility and the THECB's certification of that information is subject to a mandatory audit by the State Auditor.

The THECB rules for determining eligibility are specified in Texas Administrative Code (TAC) Title 19, Part 1, Chapter 15, Subchapter C. The eligibility requirements contained in §15.43 are summarized below.

Mandatory Criteria

Emerging Research University: the institution is designated as an emerging research university under the coordinating board's accountability system;

Restricted Research Expenditures: in each of the two state fiscal years preceding the state fiscal year for which the appropriation is made, the institution expended at least \$45 million in restricted research funds; and the institution satisfies at least four of the following six optional criteria.

Optional Criteria

(A) **Endowment funds:** value of at least \$400 million in each of the two preceding state fiscal years;

(B) **Ph.D. degrees:** at least 200 doctor of philosophy degrees awarded during each of the two preceding academic years;

(C) **Freshman class of high academic achievement:** in each of the two preceding academic years, the entering freshman class met the following criteria;

(i) At least 50 percent of the first-time entering freshman class students are in the top 25 percent of their high school class; or

- (ii) The average SAT score of first-time entering freshman class students at or above the 75th percentile of SAT scores was equal to or greater than 1210 or the average ACT score of first-time entering freshman class students at or above the 75th percentile of ACT scores was equal to or greater than 26; and
- (iii) The composition of the institution's first-time entering freshman class demonstrates progress toward achieving the goals of the Board's *Closing the Gaps* report by reflecting the population of the state or the institution's region with respect to underrepresented students and shows a commitment to improving the academic performance of underrepresented students.

(D) **Recognition of research capabilities and scholarly attainment:** the institution is designated as a member of the Association of Research Libraries, has a Phi Beta Kappa chapter, or is a member of Phi Kappa Phi;

(E) **High-quality faculty:** in each of the two preceding academic years, the faculty of the institution was of high quality as reflected in the following:

- (i) The cumulative number of tenured/tenure-track faculty who have achieved national or international distinction through recognition as a member of one of the National Academies or are Nobel Prize recipients is equal to or greater than 5; or
- (ii) The annual number of tenured/tenure-track faculty who have been awarded national or international distinction during a specific state fiscal year is equal to or greater than 7.

(F) **High-quality graduate education:** in each of the two academic years, the institution has demonstrated a commitment to high-quality graduate education as follows:

- (i) The number of Graduate-level programs at the institution is equal to or greater than 50;
- (ii) The Master's Graduation Rate at the institution is 56 percent or higher and the Doctoral Graduation Rate is 58 percent or higher; and
- (iii) The institution must demonstrate that the overall commitment to five Doctoral degree programs, including the financial support for Doctoral degree students, is competitive with that of comparable high-quality programs at public institutions in the Association of American Universities.

The THECB released the National Research University Fund Eligibility: A Report to the Comptroller and the Texas Legislature in February 2012 (Appendix B). This report concluded that UH is eligible to receive NRUF distributions pending the mandatory audit by the State Auditor. The report stated that the specific criteria UH met included: emerging research university; restricted research expenditures; endowment funds; PhD degrees; recognition of research capabilities and scholarly attainment; and high-quality faculty.

We performed a review of the information submitted by UH to establish eligibility for NRUF funding based on FY 2010 and FY 2011 data. This review was performed at the request of management and will be used to assist the mandatory audit by the State Auditor's Office.

The UH information included in the THECB report to the Comptroller and the legislature for NRUF eligibility is summarized as follows:

	FY 2010	FY 2011
Mandatory Criteria		
Emerging Research University	Yes	Yes
Restricted Research Expenditures (>\$45 million)	\$57 million	\$53 million
Optional Criteria		
Endowment Funds (>\$400 million)	\$491 million	\$591 million
PhD Degrees (\geq 200)	200	239
High Quality Faculty (National Academy Members) (\geq 5)	7	8
Recognition of Research Capabilities	Yes	Yes

OBJECTIVES:

The objectives of our review were as follows:

1. Determine whether the University submitted accurate information to the THECB for eligibility for funding from NRUF.
2. Determine whether the University has procedures in place for accurate reporting to the THECB.

SCOPE OF WORK:

We interviewed personnel responsible for certain portions of NRUF submissions, validated data that was previously reported to the THECB, and performed other audit procedures, as appropriate. We tested the specific criteria UH met for NRUF eligibility as reported by the THECB, as follows:

Restricted Research Expenditures: We obtained a summary of restricted research expenditures by account and by period that was recorded in the PeopleSoft Financial System (\$50.3 million). We verified the awards related to these expenditures were designated as restricted research in the Division of Research (DoR) information system (RD2K), verified the designation was properly supported by documentation maintained in RD2K, and agreed certified expenditures in the query to the financial accounting system (PeopleSoft Department Verification Report - 1074). Tests were limited to awards related to restricted research expenditures of sponsored contract and grant awards managed by the DoR Office of Contracts and Grants and did not include Texas Research Incentive Program (\$6.2 million) or Research Development Fund awards (\$250,000). (**Note:** The review **did not include** tests of detailed expenditure transactions. As noted in the Background section, above, these expenditures and other information are subject to a mandatory audit by the State Auditor's Office. It should be noted that during a recent audit of a UH Research Center, we noted a significant engagement observation regarding the university's effort reporting system (effort reports, reconciliations of planned to actual effort and payroll reallocations are not always completed). Not performing these tasks may affect the determination of whether certain restricted research expenditures related to payroll transactions are allowable.)

Endowment Funds: We validated values of the endowment funds reported in the THECB's Accountability report for FY 2010 and FY 2011 by reviewing analyses prepared by the Treasurer, manager statements, and external confirmations from the Treasurer and individual foundations.

Number of Doctor of Philosophy (PhD) Degrees Awarded: We validated the number of PhD degrees awarded on the THECB report by comparing it to the number of PhDs awarded (FY 2010 – 200 PhD degrees; FY 2011 – 239 PhD Degrees) on a PeopleSoft report. We also verified the names of all PhD graduates between both reports. In addition, we also verified the source documentation showing each PhD student graduated during FY 2010 or FY 2011. We conducted 100% testing for FY 2010 and a statistical sample for FY 2011.

Institutional Recognition of Research Capabilities and Scholarly Attainment: We validated that UH is a member of the Association of Research Libraries and Phi Kappa Phi by reviewing each association's website.

High-Quality Faculty: We validated the number of high quality faculty reported to THECB by verifying tenure data and payroll data from PeopleSoft and verifying high-quality faculty are members of national academies on the academies' websites.

CONCLUSION:

In our opinion, the information reported to the THECB regarding NRUF eligibility was accurate with the exception of the amounts reported for FY 2010 restricted research expenditures, FY 2010 doctoral degrees, and FY 2010 and FY 2011 endowment funds. We believe that none of these exceptions would prevent the university from attaining NRUF eligibility. The review **did not include** tests of detailed expenditure transactions. These expenditures and other information are subject to a mandatory audit by the State Auditor's Office. It should be noted that during a recent audit of a UH Research Center, we noted that certain tasks related to effort reporting were not always taking place which may affect the determination of whether certain restricted research expenditures related to payroll transactions are allowable. In our opinion, the University could improve its procedures for helping ensure that it is reporting accurate information to the THECB. Although we noted no matters we considered to be significant engagement observations, we noted opportunities for improvement related to the NRUF reporting process. Management is in the process of addressing these opportunities for improvement.

Appendix A contains areas noted during the audit where there are opportunities for improvement, recommendations that will enhance the control environment, and management's responses to these recommendations.

Don F. Guyton
Chief Audit Executive
March 9, 2012

APPENDIX A

OPPORTUNITIES FOR IMPROVEMENT

Restricted Research Expenditures

We determined that \$50.3 million of the \$56.5 million of restricted research expenditures for FY 2010 were supported by a summary of restricted research expenditures by account and by period that was recorded in the University's financial accounting system. We performed our tests on the awards related to the \$50.3 million. The majority of the other \$6.2 million of restricted research expenditures represented gifts restricted for research, a portion or all of which may have been expended in FY 2010 or FY 2011. The University is in the process of analyzing the expenditures of these gifts in order to revise the previously reported restricted research expenditures to the THECB.

The DoR and Financial Reporting department have certain documentation in place related to determining restricted research expenditures. However, they do not have a formal policy and procedure explaining the entire process for gathering and reporting restricted research expenditures to the THECB. The restricted research expenditures reported to the THECB were not reconciled to the University's annual financial statements. UH should develop formal policies and procedures for reporting restricted research expenditures to the THECB including procedures for reconciling reported amounts to the University's annual financial statements.

Management Response: We will develop formal policies and procedures for reporting restricted research expenditures to the THECB including procedures for reconciling reported amounts to the University's annual financial statements. We expect to have these policies and procedures implemented by August 31, 2012.

Endowment Funds

When we requested supporting documentation for some of the individual foundations for amounts reported to the Treasurer, we obtained support indicating different amounts in some instances (largest variance around \$400,000).

The Treasurer should inform individual foundations to have procedures in place to ensure the accurate market value is supported for each reporting cycle.

Individual foundations should ensure they are reporting the accurate time period to the Treasurer for each reporting cycle.

Management Response: Management concurs with these recommendations and will request the foundations to provide supporting documentation each reporting cycle to substantiate the market value being provided to UH.

Number of Doctor of Philosophy (PhD) Degrees Awarded

In FY 2010 we ascertained that 199 of the 200 doctoral degrees reported were supported by appropriate documentation. One doctoral student had previously obtained the doctoral degree in FY 2008; however, the degree had not been reported to the THECB. The THECB agreed to allow reporting this degree for FY 2010. We also determined that another doctoral student received a doctoral degree in FY 2010 that was not reported in FY 2010 or FY 2011. We were informed that the University plans to report this doctoral degree to the THECB for FY 2012.

Management should reconcile the CBM0099 report and the Student Applied for Graduation report for each fiscal year and address any differences.

Management should create queries to identify students that were not otherwise picked up the CBM009 extract process or Student Applied for Graduation Report and address any discrepancies. We were informed during the audit that management has already created new queries to identify prior year graduates that have not been reported to THECB.

Management should document any agreements with the THECB. Management should also confirm with the THECB (in writing/email) if the agreement to report prior period PhDs in the current fiscal year remains in effect.

Management Response: Beginning with the next CBM009 submission, the Office of Institutional Research will include comparison of the CBM009 with the Applied to Graduate report in the error-checking process prior to CBM009 submission, and resolve any discrepancies. A query has already been created to identify unreported degrees. It will be run regularly (not less than once every semester) by the Office of Registration and Academic Records. The THECB has confirmed in writing that our process for picking up unreported degrees is acceptable. This documentation has been stored with our CBM report process documentation.

High-Quality Faculty

We determined that one faculty member who was reported as a national academy member was only employed at UH during FY 2011 (criteria states both years as a requirement). We obtained email confirmation from the THECB that reporting this faculty member was allowable. We also determined that another one of the reported members of a national academy was not listed as a tenured faculty member in the university's Human Resources information system. We learned that this faculty member was classified as an "emeritus" faculty member who was previously tenured. We also obtained email confirmation from the THECB that reporting this faculty member was allowable. The university did not have any documentation

readily available for us to review regarding their understanding with the THECB of the allowing the university to report of these faculty members.

Management should gather and retain all documentation, including screen shots of PeopleSoft tenure and payroll data and screen shots of national academy websites, for each tenure or tenure track faculty member that are reported to the THECB for each fiscal year.

Management Response: We have already begun the process of storing screen shots of national academy web sites. Screen shots of UH payroll data are unnecessary, but we have identified and begun implementing a procedure for storing faculty emeritus data in the database so that we do not have to rely on Board of Regents meeting minutes to know who has been officially granted emeritus status. We expect to have these procedures implemented by October 31, 2012.

Overall Process

Management should work with the THECB to streamline the reporting process for NRUF.

UH should designate a NRUF “champion” and assign them the responsibility for oversight of the reporting processes and maintaining a final documentation repository.

Management Response: As the person primarily responsible for data, Libby Barlow will ensure communication with the THECB takes place to streamline the reporting process for NRUF. Similarly, she will serve as the “NRUF champion,” with oversight of reporting processes and documentation maintenance.

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON

ATHLETICS NCAA RULES-COMPLIANCE

REPORT NO. AR2012-25

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS**

NCAA RULES-COMPLIANCE

The NCAA Operating Bylaw 22.2.1.2.e. requires each Division I member to demonstrate that its rules-compliance program is the subject of evaluation by an authority outside of the Athletics Department at least once every four years.

For this engagement, we evaluated the Athletics Department rules-compliance program for the following areas: eligibility, playing and practice seasons, coaching staff limits and contracts, and certification of compliance. These areas were reviewed using the standard audit program developed by the Association of College and University Auditors in cooperation with the NCAA. We conducted interviews, reviewed documentation, and performed other audit procedures, as necessary, in testing compliance with various NCAA rules and university policies for each compliance area.

In our opinion, the Athletics Department's rules-compliance program in these areas helps ensure compliance with NCAA rules. Although we noted no matters that we considered to be significant engagement observations, we did note two areas that needed improvement, playing and practice seasons and departmental compliance procedures. Management developed an action plan to help ensure compliance with the NCAA rules in these areas. The compliance matrix below lists areas tested, whether the department fully complies with NCAA rules and/or university policies, and number of action items.

COMPLIANCE MATRIX	
Compliance Area	Number of Action Items
Eligibility	1
Playing and Practice Seasons	1
Coaching Staff Limits and Contracts	Fully Complies
Certification of Compliance	Fully Complies

Don F. Guyton
Director, Internal Auditing
March 29, 2012

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON-VICTORIA

SCHOOL OF ARTS AND SCIENCES
DEPARTMENTAL REVIEW

REPORT NO. AR2012-26

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON-VICTORIA
SCHOOL OF ARTS AND SCIENCES
DEPARTMENTAL REVIEW**

The objective of the Departmental Review is to determine whether departments are conducting financial and administrative activities in compliance with university policies. We performed one departmental review in the School of Arts and Sciences. 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 School was not in compliance with certain policies. Management 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 review and the School:

- Compliance Matrix
- Instances of Non-Compliance
- School Background
- Financial Summary of Transactions

Don F. Guyton
Chief Audit Executive
March 27, 2012

**University of Houston System
Internal Auditing Department**

**University of Houston-Victoria
School of Arts and Sciences
Departmental Review**

COMPLIANCE MATRIX	
Compliance Area	
Management Oversight	✓
Operational Activities	N/A
Policies, Procedures, Required Training, And Reporting	✓
Cost Center Management	✓
Payroll	(1)
Human Resources	✓
Change Funds And Cash Receipts	(1)
Procurement And Travel Cards	✓
Departmental Expenses	✓
Contract Administration	✓
Property Management	✓
Departmental Computing	✓
Scholarships	✓
Incidental And Lab Fees	N/A
Research	✓

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

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**DEPARTMENTAL REVIEW
UHV SCHOOL OF ARTS AND SCIENCES
INSTANCES OF NON-COMPLIANCE**

We brought the following instances of non-compliance to management's attention in order that it could take appropriate action. Management informed us that it would take the necessary actions in order to help prevent reoccurrences of similar instances of non-compliance with university policies.

PAYROLL

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

CHANGE FUNDS AND CASH RECEIPTS

- Checks were not made payable to the university.

**University of Houston System
Internal Auditing Department**

**University of Houston-Victoria
School of Arts and Sciences
Background Information**

Background provided by the School of Arts and Sciences:

The School of Arts and Sciences offers a diverse range of programs in the divisions of Humanities; Science, Technology and Mathematics; and Social and Behavioral Sciences. It is also home to literary institutions like the American Book Review, Fiction Collective Two, symplokē and Cuneiform Press. It also houses the international Society for Critical Exchange and Centro Victoria.

Recent Accomplishments of the School include:

- Hired ten new faculty: (Dr. Justin Bell, Professor Brian Carr, Dr. Sandra Carter, Dr. Armando Chavez-Rivera, Dr. Hashimul Ehsan, Dr. Hongyu Guo, Dr. Paul Hamilton, Dr. Amjad Nusayr, Dr. Matthew Rhoades, Dr. Gino Tozzi).
- Three new programs were developed and approved (Master of Science in Publishing, Bachelor of Arts in Communication Design and Bachelor of Arts in Spanish).
- Three new programs were developed and approved and are pending approval by the UHS Provost's Council (Bachelor of Fine Arts in Creative Writing, Master of Science in Computer Science and Master of Science in Biological Sciences).
- The Freshman Seminar program was approved.
- Arts and Sciences majors increased from 1,047 in fall 2009 to 1,302 in fall 2010—the most majors ever in the history of the school. This was a 24.4% increase in majors.
- Arts and Sciences majors increased from 1,082 in spring 2010 to 1,338 in spring 2011—the most majors ever in the history of the school. This was a 23.7% increase in majors.
- Semester credits hours rose from 9,813 in fall 2009 to 14,579 in fall 2010. This was a 48.6% increase in semester credit hours.
- Semester credits hours rose from 10,404 in spring 2010 to 14,630 in spring 2011. This was a 40.6% increase in semester credit hours.
- The American Book Review invited ten writers to UHV through its Reading Series. Fundraising receptions for each were hosted by community members.
- The Society for Critical Exchange hosted its annual Winter Theory Institute and ran two panels at the annual MLA Convention.
- Centro Victoria continued to work on *Made in Texas*, and spoke to school districts across the state about Mexican American literature in the classroom.

Budget/Financial Summary:

During fiscal year 2012, with a staff of 17 FTE and faculty of 45 FTE, the School administered 69 cost centers with an operating M&O budget of \$4,809,075.

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

Beginning Fund Balance (9/1/2010)	\$ 121,623
Revenues	132,417
Expenditures	(4,120,212)
Transfers/Other	4,010,139
Ending Balance (8/31/2011)	<u>\$ 143,967</u>

UNIVERSITY OF HOUSTON-VICTORIA
SCHOOL OF ARTS AND SCIENCES
SUMMARY OF REVENUES AND EXPENDITURES

<u>Account</u>	<u>Description</u>	<u>FY 2011</u>	<u>FY 2010</u>
<u>Revenue</u>			
40700-40999	Other Fees	\$ (11,400)	\$ (27,779)
41900-42099	Federal Pass Through Grants/Contracts	(39,779)	(5,288)
42700-43199; 44400-44428; 44440	Private Gifts, Grants and Cont	(64,534)	(55,310)
43600-43630; 43634-43999	Sales & Services - E & G	(13,734)	(25,859)
43631-43633; 44000-44399	Sales & Services - Auxiliary	(2,971)	(3,230)
Total Revenue		<u>\$ (132,417)</u>	<u>\$ (117,465)</u>
<u>Cost of Goods Sold</u>			
50000-50049	Cost of Goods Sold	\$ 0	\$ 0
Total Cost of Goods Sold		<u>\$ 0</u>	<u>\$ 0</u>
<u>Payroll</u>			
50100-50999	Salaries & Wages	\$ 3,690,404	\$ 3,261,994
51000-51399	Fringe Benefits	59,905	45,739
Total Payroll		<u>\$ 3,750,309</u>	<u>\$ 3,307,732</u>
<u>M & O</u>			
52200-52399	General Services	\$ 12,308	\$ 3,745
52400-52499	Academic Service	20,049	21,487
52500-52599	Printing, Copying, & Reproduction	28,478	23,047
52600-52799	Utilities & Sanitation	2,548	2,061
52800-52999	Communication & Transportation	22,176	23,940
53000-53499	Advertising Promotion & Public	51,523	60,768
53500-53599	Rental Lease & Royalties	2,843	3,279
53700-53799	Routine Repair	4,714	3,968
53850-53899	Contracting Services	41,228	14,918
53900-53999	General Supplies	55,560	61,380
54000-54099	Lab Research Supplies	7,218	1,899
54300-54349	Facilities & Ground Support	0	320
54350-54449	Parts & Furnishing	4,880	17,412
54450-54549	Misc Supplies & Material	1,070	1,148
54700-54799	Financial Tax & License Cost	970	237
54800-54899	Other Recurring Expenses	6,147	2,807
54900-54999	Employee Expenses	15,725	30,459
55000-55199	Special Program & Events	12,985	30,516
55300-55499	Financial Aid	9,860	4,756
56000-56499	Travel	69,619	79,359
Total M&O		<u>\$ 369,903</u>	<u>\$ 387,506</u>
<u>Capital Outlay</u>			
58000-58999	Capital Outlay	\$ 0	\$ 0
Total Capital Outlay		<u>\$ 0</u>	<u>\$ 0</u>
Total Cost of Goods Sold, Payroll, M&O and Capital Outlay		<u>\$ 4,120,212</u>	<u>\$ 3,695,238</u>

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON-VICTORIA
SCHOOL OF EDUCATION AND HUMAN
DEVELOPMENT
DEPARTMENTAL REVIEW

REPORT NO. AR2012-27

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON-VICTORIA
SCHOOL OF EDUCATION AND HUMAN DEVELOPMENT
DEPARTMENTAL REVIEW**

The objective of the Departmental Review is to determine whether departments are conducting financial and administrative activities in compliance with university policies. We performed one departmental review in the School of Education and Human Development. 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 School was not in compliance with certain policies. Management agreed to implement action plans for certain areas 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 review and the School:

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

Don F. Guyton
Chief Audit Executive
March 30, 2012

**University of Houston System
Internal Auditing Department**

**University of Houston-Victoria
School of Education and Human Development
Departmental Review**

COMPLIANCE MATRIX	
Compliance Area	
Management Oversight	✓
Operational Activities	N/A
Policies, Procedures, Required Training, And Reporting	✓
Cost Center Management	(1)
Payroll	✓
Human Resources	✓
Change Funds And Cash Receipts	(1)
Procurement And Travel Cards	✓
Departmental Expenses	✓
Contract Administration	(1)
Property Management	✓
Departmental Computing	✓
Scholarships	✓
Incidental And Lab Fees	N/A
Research	✓

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

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**DEPARTMENTAL REVIEW
UHV SCHOOL OF EDUCATION AND HUMAN DEVELOPMENT
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 action plans to address the areas 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.

COST CENTER MANAGEMENT

- Grant cost center verifications are not being performed.*

CHANGE FUNDS AND CASH RECEIPTS

- Receipts totaling \$100 or more were not deposited within one working day after receipt.

CONTRACTS

- A contract was not signed prior to the contract effective date.

**University of Houston System
Internal Auditing Department**

**University of Houston-Victoria
School of Education and Human Development
Background Information**

Background provided by the School of Education and Human Development:

The School of Education and Human Development is one of four schools in the University of Houston-Victoria. The faculty and staff are responsible for providing a high quality education to students based on research and best practices in the professional studies.

Programs of study include both undergraduate and graduate degrees for elementary and secondary school careers. In addition, graduate study is offered in Curriculum and Instruction, Literacy, Mathematics, Science, Special Education, Educational Leadership, Counselor Education and Adult & Higher Education. Professional certificates are offered for careers as School Principal, School Superintendent, Master Reading Teacher, Master Math Teacher, and Special Education Diagnostician. Our graduate level study in Counseling can lead to certification as a School Counselor and/or a Licensed Professional Counselor.

The mission of the School of Education and Human Development is to contribute to the total educational experience of candidates enrolled at the University of Houston-Victoria. In teaching, research, and service the school's faculty is committed to preparing qualified professionals for varied educational roles, teaching, counseling, and administration. The School of Education and Human Development promotes an educational system responsive to the challenges of a modern society.

In order to achieve the mission of the School of Education and Human Development, the faculty is committed to the following goals:

- Encouragement of ethical practice
- Meaningful faculty-student interactions
- Promotion of learning as a life-long process
- Achievement of student and faculty academic excellence
- Appreciation of student diversity and a multicultural society
- Support of a practical foundation through extensive field experiences
- Creation of an educational environment that supports critical thinking
- Innovative instruction and an understanding of the 21st Century new literacies
- Collaboration with community and school partners for the development of human potential

School of Education and Human Development recent accomplishments include:

- Achieved an overall, student pass rate of 90% on Texas Certification Exams
- Added a new degree program, the Masters' degree in Adult and Higher Education.

- Gained approval of the Inquiry Brief, initial application, for accreditation by the Teacher Education Accreditation Council (TEAC) paving the way the on-site visit by the accrediting team in the 2012-2013 academic year
- Developed a school-wide assessment plan for all programs
- Developed more current school-wide online course standards
- Incorporated videos of actual classroom settings into online classes for certification programs
- Planned for a yearly student research symposium, MED in Special Education
- Strengthened the collaboration with the Victoria Children’s Museum. UHV students initiated several activities over the last year
- Sponsored an annual Instructional Technology conference on the UHV campus
- Sponsored a regional high school Texas Association of Future Educators on the UHV campus
- Contracted with the Fort Bend County Independent School District for a school counseling student cohort
- Initiated Educational Leadership cohorts with Victoria ISD, Wharton ISD, and Fort Bend ISD
- Counseling is accredited by the Council for the Accreditation of Counseling and Related Educational Programs (CACREP).
- All educator preparation programs are accredited by the Texas Education Agency
- 23 publications by faculty members
- 28 scholarly presentations by faculty members

Budget/Financial Summary:

During fiscal year 2012, with a staff of 9.5 FTE and faculty of 37.25 FTE, the School administered 22 cost centers with an operating M&O budget of \$2,132,448.

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

Beginning Fund Balance (9/1/2010)	\$ 103,312
Revenues	329,559
Expenditures	(3,192,720)
Transfers/Other	2,974,022
Ending Balance (8/31/2011)	<u>\$ 214,173</u>

UNIVERSITY OF HOUSTON-VICTORIA
SCHOOL OF EDUCATION AND HUMAN DEVELOPMENT
SUMMARY OF REVENUES AND EXPENDITURES

<u>Account</u>	<u>Description</u>	<u>FY 2011</u>	<u>FY 2010</u>
<u>Revenue</u>			
41900-42099	Federal Pass Through Grants/Contracts	\$ (221,572)	\$ (288,197)
42700-43199; 44400-44428; 44440	Private Gifts, Grants and Cont	(94,659)	(162,490)
43500-43599	Endowment Income Distribution	(573)	(642)
43600-43630; 43634-43999	Sales & Services - E & G	(12,756)	(28,476)
Total Revenue		<u>\$ (329,559)</u>	<u>\$ (479,805)</u>
<u>Cost of Goods Sold</u>			
50000-50049	Cost of Goods Sold	\$ 0	\$ 0
Total Cost of Goods Sold		<u>\$ 0</u>	<u>\$ 0</u>
<u>Payroll</u>			
50100-50999	Salaries & Wages	\$ 2,753,286	\$ 2,767,446
51000-51399	Fringe Benefits	54,637	59,497
Total Payroll		<u>\$ 2,807,923</u>	<u>\$ 2,826,943</u>
<u>M & O</u>			
52200-52399	General Services	\$ 1,174	\$ 3,583
52400-52499	Academic Service	6,522	13,019
52500-52599	Printing, Copying, & Reproduction	2,448	8,118
52800-52999	Communication & Transportation	5,502	7,630
53000-53499	Advertising Promotion & Public	12,567	21,530
53500-53599	Rental Lease & Royalties	175	596
53700-53799	Routine Repair	1,069	1,007
53850-53899	Contracting Services	6,658	4,161
53900-53999	General Supplies	58,437	120,384
54100-54199	Health & Clinical Support	21	0
54350-54449	Parts & Furnishing	5,066	6,939
54450-54549	Misc Supplies & Material	3,325	4,783
54800-54899	Other Recurring Expenses	49,743	27,701
54900-54999	Employee Expenses	41,922	11,063
55000-55199	Special Program & Events	2,622	4,336
55300-55499	Financial Aid	100,730	188,028
56000-56499	Travel	79,684	79,447
56500-56599	Contracts & Grants	7,132	19,196
Total M&O		<u>\$ 384,798</u>	<u>\$ 521,522</u>
<u>Capital Outlay</u>			
58000-58999	Capital Outlay	\$ 0	\$ 0
Total Capital Outlay		<u>\$ 0</u>	<u>\$ 0</u>
Total Cost of Goods Sold, Payroll, M&O and Capital Outlay		<u>\$ 3,192,720</u>	<u>\$ 3,348,465</u>

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON-VICTORIA

SCHOOL OF BUSINESS ADMINISTRATION
DEPARTMENTAL REVIEW

REPORT NO. AR2012-28

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON-VICTORIA
SCHOOL OF BUSINESS ADMINISTRATION
DEPARTMENTAL REVIEW**

The objective of the Departmental Review is to determine whether departments are conducting financial and administrative activities in compliance with university policies. We performed one departmental review in the School of Business Administration. 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 School was not in compliance with certain policies. Management 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 review and the School:

- Compliance Matrix
- Instances of Non-Compliance
- School Background
- Financial Summary of Transactions

Don F. Guyton
Chief Audit Executive
April 3, 2012

**University of Houston System
Internal Auditing Department**

**University of Houston-Victoria
School of Business Administration
Departmental Review**

COMPLIANCE MATRIX	
Compliance Area	
Management Oversight	✓
Operational Activities	N/A
Policies, Procedures, Required Training, And Reporting	✓
Cost Center Management	✓
Payroll	✓
Human Resources	✓
Change Funds And Cash Receipts	✓
Procurement And Travel Cards	(1)
Departmental Expenses	(2)
Contract Administration	✓
Property Management	✓
Departmental Computing	✓
Scholarships	N/A
Incidental And Lab Fees	✓
Research	N/A

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

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

**DEPARTMENTAL REVIEW
UHV SCHOOL OF BUSINESS ADMINISTRATION
INSTANCES OF NON-COMPLIANCE**

We brought the following instances of non-compliance to management's attention in order that it could take appropriate action. Management informed us that it would take the necessary actions in order to help prevent reoccurrences of similar instances of non-compliance with university policies.

PROCUREMENT AND TRAVEL CARDS

- Taxable employee awards (gift cards) were not reported to Payroll.

DEPARTMENTAL EXPENSES

- Itemized expense receipts were not provided for entertainment related expense reimbursements.
- Entertainment related expense reimbursements were not processed timely.

**University of Houston System
Internal Auditing Department**

**University of Houston-Victoria
School of Business Administration
Background Information**

Background provided by the School of Business Administration:

The mission of the School of Business Administration is to provide high-quality academic programs at all levels, but with special emphasis at the graduate level, primarily for non-traditional students. Our mission is supported by hiring and retaining qualified faculty who ensure that our graduates possess the knowledge and skills necessary for successful careers in the domestic and international marketplace.

We dedicate ourselves to continuous improvement in the following areas:

Curriculum: Providing adaptive programs, particularly at the graduate level, that prepare our graduates for successful business careers in a rapidly changing, global and technological environment.

Outreach: Offering educational opportunities to underserved constituencies through a variety of delivery modes (e.g., off-campus sites and Internet) and collaborative arrangements; and offering economic development through sponsored centers.

Intellectual Contributions: Fostering intellectual contributions that emphasize the application of knowledge to improve management practices, with a lesser emphasis placed on the discovery of new knowledge and the enhancement of knowledge related to instructional development.

Service: Providing a balanced array of services to the institution, profession and community, within the constraints of our primary focus on teaching and research.

To accomplish our mission and fulfill our student-focused philosophy:

- We recognize our responsibility to serve a broad constituency, and we believe that students are our primary constituents.
- We are committed to a student-oriented faculty and staff who are responsive, adaptive and flexible.
- We embrace diversity in students, faculty and staff.
- We are open to change, responsive to emerging issues, and committed to continuous improvement.
- We are committed to excellence in research, professional development, and life-long learning among faculty and staff to foster excellence in student learning.
- We strive for and support a culture of mutual respect, cooperation, collegiality, and teamwork among faculty, staff and students.
- We embrace the highest standards of ethics, responsibility and accountability.

Budget/Financial Summary:

During fiscal year 2012, with a staff of 16 FTE and faculty of 40 FTE, the School administered 24 cost centers with an operating M&O budget of \$6,300,994.

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

Beginning Fund Balance (9/1/2010)	\$ 984,634
Revenues	572,462
Expenditures	(5,710,563)
Transfers/Other	5,324,385
Ending Balance (8/31/2011)	<u>\$ 1,170,918</u>

UNIVERSITY OF HOUSTON-VICTORIA
SCHOOL OF BUSINESS ADMINISTRATION
SUMMARY OF REVENUES AND EXPENDITURES

<u>Account</u>	<u>Description</u>	<u>FY 2011</u>	<u>FY 2010</u>
<u>Revenue</u>			
40700-40999	Other Fees	\$ (60,310)	\$ (208,869)
55500-55999;56700-57999	Waivers & Expenses	6,240	19,185
41100-41499	State Appropriations	(215,050)	(215,050)
41900-42099	Federal Pass Through Grants/Contracts	(110,619)	(108,154)
42100-42299	State Grants & Contracts	(165,678)	(180,430)
42700-43199; 44400-44428; 44440	Private Gifts, Grants and Cont	(1,455)	(162,997)
43600-43630; 43634-43999	Sales & Services - E & G	(23,609)	(22,378)
43631-43633; 44000-44399	Sales & Services - Auxiliary	(1,980)	(1,170)
Total Revenue		<u>\$ (572,462)</u>	<u>\$ (879,863)</u>
<u>Cost of Goods Sold</u>			
50000-50049	Cost of Goods Sold	\$ 0	\$ 0
Total Cost of Goods Sold		<u>\$ 0</u>	<u>\$ 0</u>
<u>Payroll</u>			
50100-50999	Salaries & Wages	\$ 5,163,656	\$ 4,892,298
51000-51399	Fringe Benefits	179,910	118,543
Total Payroll		<u>\$ 5,343,566</u>	<u>\$ 5,010,841</u>
<u>M & O</u>			
52200-52399	General Services	\$ 8,693	\$ 7,669
52500-52599	Printing, Copying, & Reproduction	9,324	3,400
52800-52999	Communication & Transportation	18,324	19,206
53000-53499	Advertising Promotion & Public	49,146	56,358
53500-53599	Rental Lease & Royalties	11,103	10,350
53700-53799	Routine Repair	1,261	1,909
53850-53899	Contracting Services	12,845	7,927
53900-53999	General Supplies	54,821	59,593
54300-54349	Facilities & Ground Support	5	52
54350-54449	Parts & Furnishing	17,935	19,661
54450-54549	Misc Supplies & Material	329	3,485
54550-54699	Legal Services	2,500	3,841
54700-54799	Financial Tax & License Cost	25	0
54800-54899	Other Recurring Expenses	18,557	7,540
54900-54999	Employee Expenses	33,583	28,169
55000-55199	Special Program & Events	10,757	3,603
56000-56499	Travel	102,550	135,349
56500-56599	Contracts & Grants	15,239	32,636
Total M&O		<u>\$ 366,997</u>	<u>\$ 400,750</u>
<u>Capital Outlay</u>			
58000-58999	Capital Outlay	\$ 0	\$ 0
Total Capital Outlay		<u>\$ 0</u>	<u>\$ 0</u>
Total Cost of Goods Sold, Payroll, M&O and Capital Outlay		<u>\$ 5,710,563</u>	<u>\$ 5,411,591</u>

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL QUALITY ASSURANCE REVIEW
OF INTERNAL AUDITING

REPORT NO. AR2012-29

**UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT**

INTERNAL QUALITY ASSURANCE REVIEW OF INTERNAL AUDITING

BACKGROUND:

The *International Standards for the Professional Practice of Internal Auditing (Standards)*, promulgated by the Institute for Internal Auditors (IIA), require internal audit departments to develop and maintain a quality assurance program that helps ensure that the internal audit activity is in conformance with the *Standards*; helps ensure the quality and credibility of their work; and assists the internal auditing activity in adding value and improving the organization's operations. According to the *Standards*, a comprehensive quality assurance program includes the following elements:

- Ongoing reviews of the internal audit activity's performance.
- Periodic internal reviews of the internal auditing department's work.
- Periodic external or peer reviews of the internal auditing department's work at least once every five years.

Internal and external quality assurance reviews of the University of Houston System Internal Auditing Department (IAD) are conducted approximately every three years, in accordance with the Texas Internal Auditing Act. The IIA published the *Quality Assessment Manual* to provide guidelines for these reviews. The internal quality assurance review is part of a useful self-assessment process in preparation for the external review.

OBJECTIVE:

The objective of the review was to determine whether the IAD was in compliance with the *Standards* established by the IIA.

SCOPE OF WORK:

The IIA *Quality Assessment Manual, 6th Edition*, was used in performing this review. This report represents the results of the internal quality assurance review conducted between March and April 2012 for work performed during the period of September 2010 through March 2012.

The scope of the review consisted of the following elements:

- Reviewing general information, policies and procedures, and management practices of the IAD.

- Discussions with the IAD management.
- Reviewing a representative sample of work papers of audit projects completed during the period under review.

CONCLUSION:

The rating system that was used for expressing an opinion for this review provides for three levels of conformance: generally conforms, partially conforms, and does not conform. “Generally Conforms” is the top rating and means that the IAD has a charter, policies, and processes that are judged to be in conformance with the *Standards*; however, opportunities for improvement may exist. “Partially Conforms” means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the IAD from performing its responsibilities in an acceptable manner. “Does Not Conform” means deficiencies in practice were found that were considered so significant as to seriously impair or prohibit the IAD in carrying out its responsibilities.

Based on the work outlined above, in my opinion, the internal audit activities at the University of Houston System Internal Auditing Department generally conforms to the IIA’s *Standards*.

Appendix A lists opportunities for improvements and potential enhancements that will augment the value, efficiency, and effectiveness of the internal audit activities provided by the University of Houston System Internal Auditing Department.

Bobby Kegresse, CPA, CIA
Senior Auditor
April 18, 2012

APPENDIX A

OPPORTUNITIES FOR IMPROVEMENT

Audit Management Information System (Standard 2030 – Resource Management)

2030 – The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

The IAD has effective processes to manage and monitor completion of the audit plan, including responding to management requests as necessary. In addition to scheduled staff meetings, the IAD methodology to track engagements and monitor completion of the audit plan utilizes manual reporting processes based on multiple, non-integrated Excel spreadsheets. This includes forms for tracking staff schedules, audit plan and individual project status, project milestones, assignment of report numbers, and time reporting by staff and project. There is an opportunity to improve the adequacy of the methodology for monitoring and reporting on completion of the audit plan by automating the project reporting processes.

The IAD uses the TeamMate Audit Management System (TeamMate) to help streamline the audit process. The IAD has successfully implemented the audit documentation module but has not implemented the remaining system modules. The IAD has developed a plan of implementing the remaining functionalities in TeamMate (Time and Expense Capture, TeamMate Schedule, TeamRisk, TeamCentral), but has not yet implemented them. By implementing the remaining functionalities in TeamMate, the IAD could simplify administrative efforts and minimize the number of forms that auditors must complete.

Recommendation: The IAD should automate project reporting processes to improve the adequacy of monitoring and reporting on completion of the audit plan. The prior internal quality assessment recommended assessing TeamMate functionalities to more effectively manage operations and eliminate manual administrative tasks. Based on the assessment, the IAD should implement available TeamMate modules and evaluate other integrated, automated solutions for project reporting, as necessary.

Management Response: We are in the process of implementing the new release of the TeamMate Audit Management System. The first module to be implemented is the Electronic Working Papers and this should be completed by August 31, 2012. We will assess the benefits of using the other system modules to automate our current administrative functions by August 31, 2013.

Project Quality Assurance (Standard 1300 – Quality Assurance and Improvement Program)

1300 – The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

1311 – Internal assessments must include:

- *Ongoing monitoring of the performance of the internal audit activity; and*
- *Periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.*

The CAE's quality assurance and improvement program is documented in the Audit Manual as Section B-8 Quality Assurance. As part of ongoing monitoring, the project quality assurance process includes an independent second review of certain workpapers. A staff member, who was not part of the project team, completes a Quality Assurance (QA) Checklist. The QA checklist details the procedures and workpapers to be reviewed, but does not reference the relevant IIA *Standards*, which are the basis of the project quality assurance review. Utilizing the *Standards* as the checklist criteria will help ensure projects comply with the *Standards*. As an example, Tool 17 used in this review identifies the relevant *Standards* for each area required to be reviewed.

Recommendation: Management should improve the adequacy of the current project quality assurance process by referencing the relevant *Standards* into the IAD's QA Checklist to help ensure the performance and documentation of engagements comply with IIA *Standards*.

Management Response: We will compare the Quality Assurance Checklist to the IIA's QAR Workpaper Review Tool and modify the Quality Assurance Checklist, as necessary. In addition, we will reference the relevant IIA *Standards* on the Quality Assurance Checklist. Estimated completion date: August 31, 2012.

Engagement Planning (Standard 2200)

2200 – Internal Auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.

2210.AI – Internal auditors must conduct a preliminary assessment of risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

IAD Policy C-2 Engagement Planning establishes engagement planning procedures designed to comply with IIA *Standards*. As part of engagement planning, IAD ensures objectives align with those initially identified during the annual risk assessment process used to develop the audit plan. IAD also conducts a preliminary survey of the activity to be audited that may include reviewing financial information and policies and procedures, obtaining a self-assessment survey, and meeting with personnel to obtain an understanding of the client's activities, risks and controls. The preliminary survey results are documented in various workpapers, including narratives and risk assessment schedules.

Each of the three projects reviewed appropriately included planning sections that included a risk assessment workpaper. However, the risk assessment workpapers were not consistent between the projects regarding documentation of rating risk levels and referencing audit program procedures. Because the nature of the engagements were different (Departmental Review, Functional, Information Technology), different methodologies and formats may be desirable, as contemplated by IAD Policy C-2.

IIA Practice Advisory 2200-1, Engagement Planning, recommends establishing a level of formality and documentation for risk assessment procedures that are appropriate to the organization, considering such factors as the engagement's complexity and scope and whether the documentation will be used in subsequent engagements.

Recommendation: Management should evaluate engagement planning procedures to help ensure risk assessment procedures are appropriately documented. The evaluations should consider whether standard risk assessment workpaper formats would enhance the adequacy of risk assessment procedures and revise engagement planning procedures, as necessary.

Management Response: Greater emphasis has been placed on project risk assessments during the past year. Project risk assessments are designed specifically to an engagement to help identify/prioritize areas to be audited. Where applicable, we will use standard methods and/or forms. In addition, we will reference the risk assessment to the audit procedures performed to document that high risk issues receive appropriate audit coverage. Estimated implementation date: July 1, 2012.

Computer Assisted Audit Tools (Standard 1200 – Proficiency and Due Professional Care)

1210.A3 – Internal Auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1220. A2 – In exercising due professional care the internal auditor must consider the use of technology-based audit and other data analysis techniques.

In addition to compliance with the Standards, training in analytical review techniques and the use of computer assisted audit tools are considered successful practices. Data extraction and analyses techniques are used in the engagement to assist planning, perform and document testing, and support results and conclusions. Currently, the IAD uses the Data Warehouse and PeopleSoft queries for data extraction and Excel for data analysis. While the IAD collectively has data extraction and analysis skills, there is an opportunity to further develop and encourage the use of technology based tools by evaluating the current use of available tools to identify

knowledge transfer opportunities and training needs and to determine whether audit engagements are supported by appropriate data extraction and analysis tools.

Recommendation: Management should evaluate the current data extraction and analysis tools and techniques to help ensure staff has sufficient knowledge of technology based audit techniques and engagements are supported by the appropriate tools. Results of the evaluations should identify training needs and alternate data analysis tools.

Management Response: We will evaluate the use of additional technology-based audit tools to complement the tools currently used by August 31, 2012. We will acquire additional technology-based audit tools if deemed appropriate, provide necessary training and begin using these tools by August 31, 2013.