

**UNIVERSITY OF HOUSTON SYSTEM**

**Audit and Compliance Committee Meeting**

**8:30 a.m. – 10:00 a.m.**

**May 18, 2011**

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## AGENDA

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### UNIVERSITY OF HOUSTON SYSTEM AUDIT AND COMPLIANCE COMMITTEE MEETING

**DATE:** Wednesday, May 18, 2011

**TIME:** 8:30 a.m.

**PLACE:** Hilton University of Houston Hotel  
Waldorf Astoria Ballroom E, Second Floor  
4800 Calhoun  
Houston, Texas 77002

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**Chair:** Nandita V. Berry

**Vice Chair:** Jacob M. Monty

**Members:** Welcome W. Wilson, Sr.  
Carroll Robertson Ray, Ex Officio

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#### AUDIT AND COMPLIANCE COMMITTEE

A. Call to Order

B. Approval of Committee Meeting Minutes

- February 16, 2011, Audit and Compliance Committee Meeting

**Action:** Approval

C. Presentation – External Audit Process, Requirements, and Timetable – AUDIT – 1  
University of Houston System

**Action:** Information

D. Internal Audit Report – Briefing Booklet – University of Houston AUDIT – 2  
System

**Action:** Information

E. Institutional Compliance Status Report for the Three Months Ended AUDIT – 3  
March 31, 2011 – University of Houston System

**Action:** Information

- F. External Audit Report – UHS Public Broadcasting Basic Financial Statements and Independent Auditor’s Report for FY2010 and FY2009 – University of Houston System      AUDIT – 4

**Action:**    Information

- G. External Audit Report – Texas Comptroller of Public Accounts Post Payment of the University of Houston-Clear Lake – UH Clear Lake      AUDIT – 5

**Action:**    Information

- H. External Audit Report – State Auditor Reports – University of Houston System      AUDIT – 6
- SAO Report 11-318, Federal Portion of the Statewide Single Audit Report for Fiscal Year Ended August 31, 2010
  - SAO Report 11-555, Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010

**Action:**    Information

- I. UH System Support Organizations – University of Houston System      AUDIT – 7
- Compliance Report of UH System Support Organization
  - UH System Support Organization Report

**Action:**    Information

- J. Update on Internal Audit follow-up data base – University of Houston System      AUDIT – 8

**Action:**    Information

- K. Adjourn

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

**COMMITTEE:** Audit and Compliance

**ITEM:** Presentation – External Audit Process, Requirements, and Timetable

**DATE PREVIOUSLY SUBMITTED:**

**SUMMARY:**

Mr. David Ellis, Executive Director of Financial Reporting, will make a presentation on the external audit process, requirements, and timetable. Mr. Matt Molinsky, the KPMG engagement partner for the university's external audits, will be available for comments/questions.


**SUPPORTING**

**DOCUMENTATION:** Power Point Presentation – External Audit Process, Requirements, and Timetable


**FISCAL NOTE:**

**RECOMMENDATION/  
ACTION REQUESTED:** Information

**COMPONENT:** University of Houston System

  
\_\_\_\_\_  
**CHIEF AUDIT EXECUTIVE** Don Guyton

4/29/11  
\_\_\_\_\_  
**DATE**

  
\_\_\_\_\_  
**CHANCELLOR** Renu Khator

5/6/11  
\_\_\_\_\_  
**DATE**

University of Houston System  
Board of Regents - Audit and Compliance Committee  
May 18, 2011

# External Audit Process

# External Audit Projects

- Financial statements & Audit
  - UH Charter School
  - Public Broadcasting (KUHT-TV, KUHF-FM, ACB)
  - UHS Endowment Fund
- Agreed-upon procedures & Report
  - UH Intercollegiate Athletics

# Division/Department Organization

- Academic Affairs Division
  - Public Broadcasting
  - UH Charter School
- Athletics Division
  - Intercollegiate Athletic Department
- Administration & Finance Division
  - UHS Endowment Fund

# Regulatory / Oversight Entity

- UH Charter School
  - Texas Education Agency (TEA)
  - Texas Education Code, Title 2, Chapter 4, Section 44.008(d)
- Public Broadcasting
  - Corporation for Public Broadcasting (CPB)
  - Public Broadcasting Act of 1967, as amended (47 U.S.C. 396)
- UH Intercollegiate Athletics
  - National Collegiate Athletic Association (NCAA)
  - NCAA Bylaw 3.2.4.16
- UHS Endowment Fund
  - An endowment agreement

# External Audit Firms

- 2009 – 2010 KPMG
- 2005 – 2008 McConnell & Jones
- 1996 – 2004 MFR
- 1990 – 1995 Ernst & Young / Coopers & Lybrand
- 1987 – 1989 Deloitte Haskins & Sells

# External Audit Key Participants

- External audit firm
- Audited department
  - Department Business Administrator
  - Business Office staff
  - Department CEO (Principal; General Manager; Athletic Director; Treasurer)
- Finance division departments
  - Financial Reporting
  - External Audit Support
  - General Accounting / Accounts Payable / Payroll

# Required Submission Date for Reports

- UH Charter School
  - January 28, following end of fiscal year (August 31)
  - Requires Board of Regents approval
- Public Broadcasting
  - January 31, following end of fiscal year (August 31)
- UH Intercollegiate Athletics
  - January 15, following end of fiscal year (August 31)
- UHS Endowment Fund
  - An endowment agreement

# Key Dates

## Institutional Year End Process

- **Aug 31** Fiscal year end
- **Sep 10** Department final payroll journals to Payroll
- **Sep 13** Payroll ledger closes
- **Sep 15** Department final general ledger journals to Accounting
- **Sep 27** Department accounting activity completed
- **Oct 22** Final endowment year end entries completed
- **Oct 28** Final year end closing entries completed
- **Oct 29** System consolidating entries completed

# Key Dates

## Institutional Year End Process

AUDIT – 1.1.9

- **Oct 30** General ledger closed
- **Oct 30** Campus financial reports completed
- **Oct 30** System-wide consolidation process completed
- **Oct 31** Preliminary management review completed
- **Nov 13** Final management review completed
- **Nov 15** Financial results for all UHS campuses present to Board of Regents
- **Nov 20** UHS Annual Financial Report submitted to State Comptroller & State Auditor

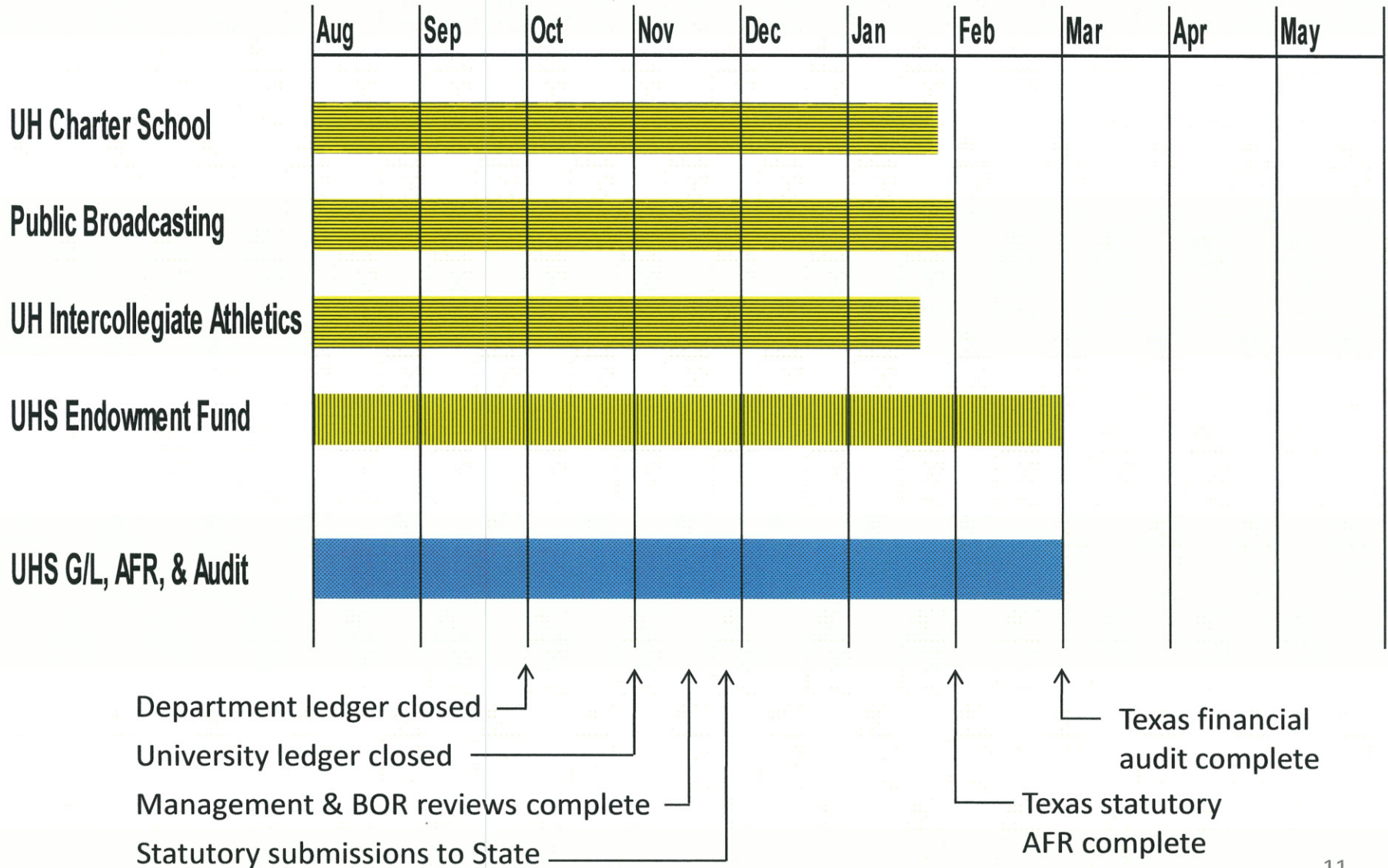
# Key Dates

## Institutional Year End Process

- **Dec 31** State Comptroller preliminary review completed
- **Jan 15** State-wide adjusting and consolidating entries completed
- **Feb 1** State-wide consolidated financial reports completed
- **Feb 28** State-wide audit completed

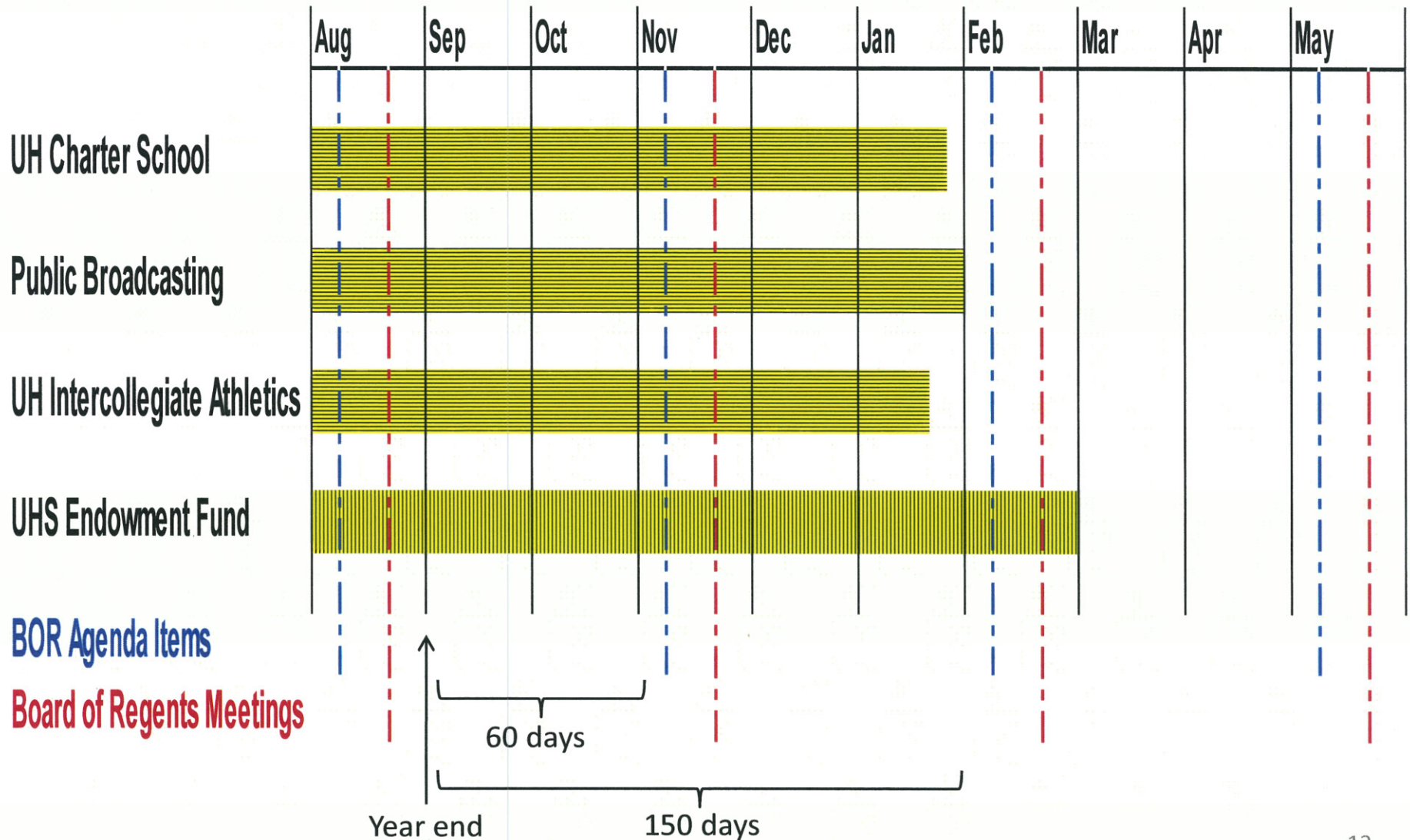
# Audit & Report Timeline

AUDIT - 1.1.11



# Report Timeline / Board Meetings

AUDIT - 1.1.12



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

**COMMITTEE:** Audit and Compliance

**ITEM:** Internal Audit Report – Briefing Booklet

**DATE PREVIOUSLY SUBMITTED:**

**SUMMARY:** The Internal Audit Briefing Booklet contains an Internal Audit Activity Outline and Internal Audit Reports issued since the November 17, 2010, Audit & Compliance Committee Meeting 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**:

- **AR2011-21** Follow-up Status Report
  - Identifies one high risk item that is partially implemented related to major construction project management in the UHS Facilities Planning and Construction
- **AR2011-22** UHCL Office of Academic Affairs and Provost, Departmental Reviews
  - The UHCL Career and Counseling Services needs to prepare and approve cost center verifications in a timely manner
- **AR2011-23** Executive and Foreign Travel, All Components
- **AR2011-24** UH Research Administration
- **AR2011-25** UH Athletics Department, Endowments
- **AR2011-26** UH College of Education, Endowments


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

**SUPPORTING DOCUMENTATION:** Internal Audit Briefing Booklet (under separate cover)

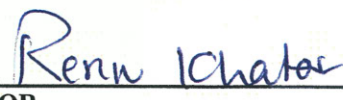
**FISCAL NOTE:**

**RECOMMENDATION/  
ACTION REQUESTED:** Information

**COMPONENT:** University of Houston System

  
\_\_\_\_\_  
**CHIEF AUDIT EXECUTIVE** Don Guyton

4/29/11  
\_\_\_\_\_  
**DATE**

  
\_\_\_\_\_  
**CHANCELLOR** Renu Khator

5/6/11  
\_\_\_\_\_  
**DATE**



UNIVERSITY OF HOUSTON SYSTEM

Internal Auditing Department

Houston, Texas 77204-0930

(713)743-8000

Fax: (713)743-8015

**MEMORANDUM**

TO: Board of Regents

FROM: Don F. Guyton  
Chief Audit Executive

DATE: April 29, 2011

SUBJ: Internal Audit Activity - Briefing Booklet for May 18, 2011, Audit & Compliance Committee Meeting

Attached for your information is a briefing booklet describing the activities of the Internal Auditing Department since the February 17, 2011, 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**:

- **AR2011-21** Follow-up Status Report
  - Identifies one high risk item that is partially implemented related to major construction project management in the UHS Facilities Planning and Construction
- **AR2011-22** UHCL Office of Academic Affairs and Provost, Departmental Reviews
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- **AR2011-24** UH Research Administration
- **AR2011-25** UH Athletics Department, Endowments
- **AR2011-26** UH College of Education, Endowments

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

Please let me know if you have any questions.

Attachment

UNIVERSITY OF HOUSTON SYSTEM  
INTERNAL AUDITING DEPARTMENT

BOARD OF REGENTS  
AUDIT & COMPLIANCE COMMITTEE  
MEETING

INTERNAL AUDIT BRIEFING  
MATERIALS

May 18, 2011

**University of Houston System  
Internal Auditing Department**

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

**Internal Audit Briefing Materials**

**May 18, 2011**

**INDEX**

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

**University of Houston System  
Internal Auditing Department**

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

**ACTIVITY OUTLINE  
May 18, 2011**

1. Audit Reports Issued since February 16, 2011, Board of Regents Meeting
  - AR2011-21 Follow-up Status Report
  - AR2011-22 UHCL Office of Academic Affairs and Provost, Departmental Reviews
  - AR2011-23 Executive and Foreign Travel, All Components
  - AR2011-24 UH Research Administration
  - AR2011-25 UH Athletics Department, Endowments
  - AR2011-26 UH College of Education, Endowments
2. Fieldwork in Progress (*scheduled distribution date to Board of Regents*)
  - UH Endowment Income Expenditures (NSM, Library, Optometry, Engineering, Non-College Specific, Provost, System Administration) (*August 17, 2011*)
  - UHS Privacy Issues (*August 17, 2011*)
  - UHS / UH Chancellor / President and BOR Travel & Entertainment (*November 2011*)
3. Planning in Progress
  - Student Accounting & Receivables (UH, UHCL, UHD, UHV)
  - UH Departmental Reviews (Education, GSSW, Hotel & Restaurant Management)
  - UH Financial Reporting
  - UH Texas Learning Computation Center
  - UH Center for Advanced Materials
  - UH Texas Institute for Measurement, Evaluation and Statistics
4. Special Projects in Progress:
  - Assistance to External Auditors – State Auditor’s Office Annual Statewide Audit, FY 2011
  - Assistance to Management – Various Special Projects
  - IRS Bond Audit

**AUDIT PLAN STATUS, FY 2011  
AS OF APRIL 27, 2011**

<u>AUDIT AREA</u>	<u>STATUS (See Note)</u>
<u>ANNUAL AUDIT ACTIVITY</u>	
Annual External Audits - Liaison	
Athletics - Football Attendance Audit	4
Athletics - NCAA Rules-Compliance	
Board of Regents Travel, FY 2011	2
Chancellor/President's Travel, FY 2011	2
Follow-up Reviews	2
Special Projects/Police Investigations	2
State Auditor's Office Liaison:	
Audit Assistance - General	2
Follow-up Reports	2
<u>ALL COMPONENTS</u>	
Contracts & Grants Admin. (UHCL, UHD, and UHV)	
Endowments (UHS and UH):	
UH Engineering	2
UH Library	2
UH Non College Specific	2
UH Provost	2
UH System Administration	2
Financial Aid, Direct Loans (UHCL, UHD, and UHV)	
Formula Funding (all components)	
JAMP Grants (UH and UHD)	4
<u>RESEARCH CENTERS</u>	
UHCL/UH Environmental Institute of Houston	
UH Texas Inst for Measurement, Evaluation & Statistics	1
UH Texas Learning & Computation Ctr.	1
<u>INFORMATION TECHNOLOGY</u>	
IT - Review and Monitor of IT Systems	
UH Desktop Computing Support, User Support	
Services, Training, Computer Store	
UH Web Support Services	
TAC 202 (UHCL, UHD, and UHV)	

<u>AUDIT AREA</u>	<u>STATUS (See Note)</u>
<u>DEPARTMENTAL REVIEWS</u>	
UH Academic Affairs/Provost Division	
UH Education	1
UH Graduate School of Social Work	1
UH Hotel & Restaurant Management	1
UHCL Provost Office	4
UHD Academic Affairs & Provost	4
UHD University College	4
UHV Nursing	4
<u>CARRYFORWARD AUDITS</u>	
Board of Regents Travel, FY 2009	4
Chancellor/President's Travel, FY 2009	4
Endowments (UH):	
UH Education	4
UH Athletics	4
UH Natural Sciences & Mathematics	2
UH Optometry	2
Financial Aid, Pell Grants (UHCL, UHD, and UHV)	4
Financial Reporting (all components)	1
Privacy Issues (all components)	2
Student Accounting & Receivables (all components)	1
UH Athletics, Departmental Review	4
UH Center for Advanced Materials	1
UH Information Security	
UH Optometry, Departmental Review	4
UH Research, Contracts & Grants Administration	4
UH Scholarships	4
UH Student Affairs, Departmental Reviews	4
UHV Administrative & Finance, Departmental Reviews	4
UHV Provost Office, Departmental Reviews	4
UHS Executive and Foreign Travel	4

Notes:

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

UNIVERSITY OF HOUSTON SYSTEM  
INTERNAL AUDITING DEPARTMENT

INTERNAL AUDIT REPORTS

**EXECUTIVE SUMMARIES**

REPORT NOS. AR2011-21 through AR2011-26

**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, 2011, to March 31, 2011, in all audit reports with open recommendations. This status report addresses 49 management actions in 19 individual reports. In ascertaining whether appropriate action was taken, we interviewed personnel, reviewed documentation and performed other audit procedures as necessary. We determined that 23 of these management actions have been completed, 25 partially implemented and 1 not implemented.

**Internal Audit Report – UHCL Office of Academic Affairs and Provost, Departmental Reviews**

The objective of the Departmental Review is to determine whether departments are conducting financial and administrative activities in compliance with university policies. We performed 17 departmental reviews in the Office of Academic Affairs and Provost. We conducted interviews, reviewed documentation, and performed other audit procedures, as necessary, in testing compliance with various policies for each compliance area. We noted no matters that we considered to be significant engagement observations. We noted that the departments reviewed were 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 – Executive and Foreign Travel, All Components**

The Internal Auditing Department periodically reviews travel expenditures of university employees. The objective of our review was to determine if executive and foreign travel expenditures were appropriately documented and allowable under university policy. In our opinion, the majority of the travel expenditures were appropriately documented and allowable under university policies. We noted no matters that we considered to be significant engagement observations. We recommended that UHCL modify its travel guidelines to address all aspects of the System Business Travel policy, including provisions for the timely preparation of reimbursement requests and the approval by the employee's supervisor or higher authority and for approval of the President's travel expenditures by the Chancellor or designee. In addition, we noted certain instances of non-compliance with university policies at UH, UHD and UHV.

**Internal Audit Report – UH Research Administration**

The Internal Auditing Department conducted a review of Research Administration at the University of Houston to determine whether the University has established management practices for externally funded programs as promulgated by the Guide to Effective Management

Practices from the Council on Governmental Relations (COGR). In our opinion, management has established policies and procedures for externally funded programs consistent with practices promulgated by most of these guidelines. Although we noted no matters that we consider to be significant engagement observations, we identified opportunities to improve the administration of externally funded programs in 1 of the 12 COGR management practice areas, Financial Administration – cost center management (deficit budgets, grant closeout, and inactive cost centers) and accounts receivable. We also identified opportunities for improvement in other related areas: export controls and indirect cost allocation. Management is in the process of addressing these opportunities for improvement.

#### **Internal Audit Report – UH Athletics Department, Endowments**

We performed a review of the endowments managed by the Athletics Department. The primary objective of our review was to determine whether the Athletics Department is managing endowment funds effectively and efficiently and is complying with the terms of the endowment agreements. In our opinion, the Athletics Department is managing endowment funds effectively and efficiently and is complying with the terms of the endowment agreements. Although we noted no matters we considered to be significant engagement observations, we noted the following opportunities for improvement related to the management of endowments: agreement finalization, communication of restrictions, and expenditure compliance. Management is in the process of addressing these opportunities for improvement.

#### **Internal Audit Report – UH College of Education, Endowments**

We performed a review of the endowments managed by the College of Education. The primary objective of our review was to determine whether the College is managing endowment funds effectively and efficiently and is complying with the terms of the endowment agreements. In our opinion, the College is managing endowment funds effectively and efficiently and is complying with the terms of the endowment agreements. Although we noted no matters we considered to be significant engagement observations, we noted the following opportunities for improvement related to the management of endowments: awarding scholarships, communication of restrictions, and agreement finalization. Management is in the process of addressing these opportunities for improvement.

**Internal Auditing Department**  
**Internal Audit Report Recommendations - Summarized by Area**  
**May 18, 2011**

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	Segreg. Reconcil.	Cash of Duties	Safeguard Handling	Assets	Other	Job Descr.	Training
Follow-up Status Report	AR2011-21																		
UHCL Office of Academic Affairs and Provost - Departmental Reviews	AR2011-22				X		X					X		X		X	X	X	
Executive & Foreign Travel, All Components	AR2011-23		X		X		X												
UH Research Administration	AR2011-24		X	X	X		X	X			X	X					X		
UH Athletics Department, Endowments	AR2011-25				X		X		X										
UH College of Education, Endowments	AR2011-26						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. AR2011-21 through AR2011-26  
(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**

**UHCL, Office of Academic Affairs and Provost, Departmental Reviews - AR2011-22  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
<b>Risk Level:</b> <b>High</b> <b>Medium</b> <b>Low</b>		
Action Complete	Charles Crocker Associate Director Career and Counseling Services	Prepare and approve cost center verifications in a timely manner, in accordance with university policies.
Action Complete	Charles Crocker Associate Director Career and Counseling Services	Review the hours worked by student interns on the General Land Office grant and work with the sponsor to verify the time previously worked by the current student interns was in accordance with the grant conditions and university policies.
August 31, 2011	John Cordary Associate Vice President for Finance	Create a reserve for doubtful accounts, in accordance with university policies. (Student Life)

**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**

**Executive and Foreign Travel, All Components - AR2011-23  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b><u>Action To Be Taken</u></b>
<b>Risk Level:    High    Medium    Low</b>		
August 31, 2011	John Cordary, UHCL Associate Vice President for Finance	Modify travel guidelines to address all aspects of the System Business Travel Policy, including the approval of the President's travel expenditures by the Chancellor or designee.

**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 Research Administration - AR2011-24  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action <u>Name/Title</u></b>	<b><u>Action To Be Taken</u></b>
<b>Risk Level:</b> <b>High</b> <b>Medium</b> <b>Low</b>		
August 31, 2011	Elizabeth Anderson Fletcher, Assoc. VC/VP for Research & Technology Transfer, Division of Research	Develop procedures to monitor grant cost centers to help ensure that deficit budgets are addressed in a timely manner.
August 31, 2011	Elizabeth Anderson Fletcher, Assoc. VC/VP for Research & Technology Transfer, Division of Research	Develop procedures to help ensure that expired grant cost centers are closed in a timely manner.
August 31, 2011	Mike Glisson, Controller, Administration & Finance	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.
April 30, 2012	VC/VP for Research & Technology Transfer	Review the IDC allocation model as part of the annual university budget development process.
August 31, 2011	Mike Glisson, Controller, Administration & Finance	Amend SAM 03.A.03, Business Travel, to address the export control requirements.
May 31, 2011	Elizabeth Anderson Fletcher, Assoc. VC/VP for Research & Technology Transfer, Division of Research	Modify the "Request to take UH Computers & Software out of the US" form to address the appropriate disclosures.

**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**

**Athletics Department, Endowments - AR2011-25  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b>Action To Be Taken</b>
<div style="border: 1px solid black; padding: 5px; text-align: center;"> <b>Risk Level:</b>    <b>High</b>    <b>Medium</b>    <b>Low</b> </div>		
August 31, 2011	Beth Schaefer Stewardship Reporting Manager	Work with the Athletics Department to finalize the endowment agreements or create a Memorandum of Understanding, as appropriate.
July 1, 2011	Jeramiah Dickey Associate Athletics Director for Development  T.J. Meagher Associate Athletics Director for Internal Operations/Chief Financial Officer Athletics Department	Notify on an annual basis, endowment restrictions to all Athletic personnel responsible for endowments to help ensure compliance with terms.
July 1, 2011	Jeramiah Dickey Associate Athletics Director for Development	Work with University Advancement to modify the terms of the endowment that has changed.

**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**

**College of Education, Endowments - AR2011-26  
Action Plan**

<b>Est. Compl.</b>	<b>Responsibility for Action</b>	
<b><u>Date</u></b>	<b><u>Name/Title</u></b>	<b><u>Action To Be Taken</u></b>
<div style="border: 1px solid black; padding: 5px; text-align: center;"> <b>Risk Level:</b>    <b>High</b>    <b>Medium</b>    <b>Low</b> </div>		
March 31, 2012	Dorita Hatchett Development Director College of Education	Identify other methods to attract qualified applicants in order to award more scholarships.
June 30, 2011	Dorita Hatchett Development Director College of Education	Notify, on annual basis, endowment restrictions to all personnel responsible for the endowments.
	Billy Nguyen College Business Administrator College of Education	
August 31, 2011	Beth Schaefer Stewardship Reporting Manager University Advancement	Work with the College to finalize endowment agreements.

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

# UNIVERSITY OF HOUSTON SYSTEM INTERNAL AUDITING DEPARTMENT

## INTERNAL AUDIT REPORTS

AR2011-21	Follow-up Status Report
AR2011-22	UHCL Office of Academic Affairs and Provost, Departmental Reviews
AR2011-23	Executive and Foreign Travel, All Components
AR2011-24	UH Research Administration
AR2011-25	UH Athletics Department, Endowments
AR2011-26	UH College of Education, Endowments

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

# UNIVERSITY OF HOUSTON SYSTEM

## INTERNAL AUDIT REPORT

# UNIVERSITY OF HOUSTON SYSTEM

## FOLLOW-UP STATUS REPORT

Actions Scheduled from January 1, 2011 to  
March 31, 2011

REPORT NO. AR2011-21

**UNIVERSITY OF HOUSTON SYSTEM  
FOLLOW-UP STATUS REPORT  
(Actions Scheduled from January 1, 2011, to March 31, 2011)**

**Board of Regents Audit Committee Meeting  
May 18, 2011**

**Table of Contents**

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

**University of Houston System  
Internal Auditing Department**

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

The Standards for the Professional Practice of Internal Auditing require internal auditors to perform follow-up procedures to ascertain that appropriate action is taken on reported audit findings. We performed such procedures for all items included in management action plans which were scheduled to be implemented January 1, 2011, to March 31, 2011, in all audit reports with open recommendations. This status report addresses 50 management actions in 19 individual reports. In ascertaining whether appropriate action was taken, we interviewed personnel, reviewed documentation and performed other audit procedures as necessary. We determined that 26 of these management actions have been completed, 23 partially implemented and 1 not implemented.

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

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

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Don F. Guyton  
Chief Audit Executive  
April 11, 2011

Attachment

**UNIVERSITY OF HOUSTON SYSTEM**  
**AUDIT REPORTS CONTAINING MANAGEMENT ACTION PLANS**  
**FOLLOW-UP STATUS**  
**FY 2011**

<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>
<b><u>INTERNAL AUDIT REPORTS WITH OPEN RECOMMENDATIONS:</u></b>				
AR1999-08	02/18/99	UH, Physical Plant Department, 3rd FU		
AR 2005-25	08/03/05	Departmental Reviews	<b>AR2011-21</b>	<b>X</b>
AR2006-20	05/02/06	Departmental Reviews	<b>AR2011-09</b>	
AR2008-08	11/15/07	UH Residential Life & Housing, Operational Review		<b>X</b>
AR2008-17	04/28/08	College of Engineering, Departmental Reviews		<b>X</b>
AR2009-02	12/09/08	UH College of Technology - Departmental Reviews		
AR2009-12	02/10/09	UH NSM - Departmental Reviews		<b>X</b>
AR2009-17	04/14/09	UHD College of Sciences & Technology- Dept. Reviews	<b>AR2011-09</b>	
AR2009-18	04/14/09	UH Division of Administration & Finance - Dept. Reviews		<b>X</b>
AR2009-20	04/14/09	UHD Information Securities Standards		
AR2009-22	08/11/09	UHS Facilities Development Project		<b>X</b>
AR2010-02	11/05/09	UHCL TAC 202		
AR2010-03	11/05/09	UH TAC 202		<b>X</b>
AR2010-07	11/05/09	UH, CLASS - Departmental Reviews		<b>X</b>
AR2010-10	02/10/10	UH Foundation Review	<b>AR2011-01</b>	
AR2010-13	02/10/10	UHCL School of Business, Departmental Review	<b>AR2011-09</b>	
AR2010-14	02/10/10	UHCL School of Science and Computer Engineering, Dept. Rev.	<b>AR2011-09</b>	
AR2010-15	02/10/10	UHD College of Sciences & Technology Dept. Rev. - Follow-up	<b>AR2011-21</b>	<b>X</b>
AR2010-17	05/12/10	UH Law Center, Departmental Reviews		<b>X</b>
AR2010-18	05/12/10	UH College of Architecture, Departmental Reviews	<b>AR2011-21</b>	<b>X</b>
AR2010-21	05/12/10	UHCL School of Human Sciences & Humanities	<b>AR2011-09</b>	
AR2010-25	08/11/10	UHCL Administration & Finance, Departmental Reviews	<b>AR2011-01</b>	
AR2010-26	08/11/10	UH Athletics, NCAA Rules-Compliance		
AR2010-28	08/11/10	UH/UHD ARP Grants, 2007 Awards	<b>AR2011-01</b>	
AR2011-05	02/16/11	UH, Division of Student Affairs Departmental Reviews		
AR2011-11	02/16/11	UH College of Optometry Departmental Review		<b>X</b>
AR2011-13	02/16/11	UHV Office of the Provost Departmental Reviews	<b>AR2011-21</b>	<b>X</b>
AR2011-16	02/16/11	UHD Office of Academic Affairs & Provost Dept. Reviews		
AR2011-17	02/16/11	UHV, Financial Aid Pell Grants		
AR2011-19	02/16/11	UHD, Financial Aid Pell Grants		<b>X</b>
AR2011-20	02/16/11	UH Financial Aid, Scholarships		
SP2009-05	08/11/09	Job Order Contracts		<b>X</b>
			<b>AR2011-21</b>	
<b><u>EXTERNAL AUDIT REPORTS WITH OPEN RECOMMENDATIONS:</u></b>				
SAO Report #05-010	11/02/04	UH - The Protection of Confidential Information and Critical Systems		<b>X</b>
SAO Report #10-328	03/01/10	Federal Portion of the Statewide Single Audit Report For the Fiscal Year Ended August 31, 2009	<b>AR2011-09</b>	
SAO Report #11-316	03/01/11	Federal Portion of the Statewide Single Audit Report For the Fiscal Year Ended August 31, 2010		<b>X</b>
SAO Report #11-555	03/01/11	Financial Portion of the Statewide Single Audit Report For the Fiscal Year Ended August 31, 2010	<b>AR2011-21</b>	<b>X</b>
CCM #0901	01/31/09	Calhoun Lofts Residence Hall Interim Construction Audit		<b>X</b>

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**AR2011-21 Follow-up Status Report  
as of March 31, 2011**

Internal Audit Report Number	Report Title	Action No.	Total Actions	Est. Compl. Date	Responsibility For Action		Action To Be Taken	Status
					Name / Title	Entity		
					Risk Level: <b>High</b> <b>Medium</b> <b>Low</b>			
AR2005-25	Departmental Reviews	1d	2	8/31/2011	Bill Nguyen College Business Administrator, Education	UH	Restore deficit balances to zero or positive amounts and implement procedures to help prevent spending funds that are not budgeted.	Action Complete
AR2008-08	UH Residential Life & Housing, Operational Review	13c	29	1/1/2011	Melissa Rockwell Exec. Director of Facilities Management Spencer Moore, Executive Director, FP&C	UH	Modify the facilities policy so that each facility is either maintained by the Facilities Planning and Construction Department (FP&C) or FP&C has the authority and responsibility to establish, monitor and enforce maintenance standards for each UH facility.	Action Complete
AR2008-17	College of Engineering, Departmental Reviews	4g	25	3/31/2011	Kal Marchi Associate Director Research Financial Services	UH	Restore deficit balances to zero or positive amounts and implement procedures to help prevent spending funds that are not budgeted.	Partially Implemented - Updated Management's Response: The department has restored the deficit budgetary balances to zero or a positive amount for 18 of the 26 project/grant cost centers. The department has submitted journal entries to clear the deficit budgetary balances for the remaining eight project/grant cost centers. The department is working with the Office of Contracts and Grants/Research Financial Services to restore the deficit budgetary balances for the eight remaining project/grant cost centers to zero or a positive amount. Estimated completion date: June 1, 2011.
AR2009-12	College of Natural Sciences & Mathematics Departmental Reviews	21f	48	2/28/2011	Jennifer Chin-Davis Department Business Administrator Physics Department	UH	Restore deficit grant cost center budgetary balances to zero or positive amounts and implement procedures to help prevent spending funds that are not budgeted.	Partially Implemented - Updated Management's Response: The department is working with the Office of Contracts and Grants to clear negative budgetary balances on grant cost centers. Estimated completion date: June 30, 2011.
AR2009-12	College of Natural Sciences & Mathematics Departmental Reviews	22f	48	2/28/2011	Jennifer Chin-Davis Department Business Administrator Physics Department	UH	Work with the Office of Contracts and Grants to close expired project cost centers and with the Budget Office to close expired HEAF cost centers.	Partially Implemented - Updated Management's Response: The department is working with the Office of Contracts and Grants and the Budget Office to close expired project and HEAF cost centers. Estimated completion date: June 30, 2011.
AR2009-18	Departmental Reviews UH Division of Administration and Finance	1b	21	2/2/2011	Sally Rowland Director Printing and Postal Services	UH	Restore deficit fund balances to zero or positive amounts and implement procedures to prevent spending funds that are not available.	Action Complete

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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: <b>High</b> <b>Medium</b> <b>Low</b>								
AR2009-18	Departmental Reviews UH Division of Administration and Finance	3c	21	2/28/2011	Esmeralda Valdez Director Business Services	UH	Restore deficit fund balances to zero or positive amounts and implement procedures to prevent spending funds that are not available.	<b><i>Partially Implemented – Updated Management’s Response:</i></b> The department has restored 1 of 2 deficit fund group balances to a positive amount. The department is working with their food service partner, ARAMARK, to analyze data and provide them with any reports that are needed to resolve the issue, as ARAMARK has had administrative changes. The department expects to restore the other deficit fund group balance to a zero or positive amount. Estimated completion date: August 31, 2011.
AR2009-22	UHS Facilities Development Project	1c	24	3/31/2011	Melissa Rockwell Exec. Director of Facilities Management Spencer Moore, Executive Director, FP&C	UHS	Modify SAM 01.B.07 to address THECB rules for construction projects and to define the roles and responsibilities for FP&C personnel and other institutional personnel to help ensure compliance with THECB rules.	<b><i>Action Complete</i></b>
AR2009-22	UHS Facilities Development Project	2(a)c	24	3/31/2011	Melissa Rockwell Exec. Director of Facilities Management	UHS	Develop and implement department policies and procedures for all aspects of construction project management (minor projects) to help ensure adequate management oversight and compliance with THECB rules.	<b><i>Action Complete</i></b>
AR2009-22	UHS Facilities Development Project	2(b)c	24	3/31/2011	Spencer Moore, Executive Director, FP&C	UHS	Develop and implement department policies and procedures for all aspects of construction project management (major projects) to help ensure adequate management oversight and compliance with THECB rules.	<b><i>Partially Implemented - Updated Management's Response:</i></b> The major projects PD process is still under development by FP&C. Estimated completion date: August 31, 2011.
AR2009-22 (PRT)	UHS Facilities Development Project	13a	24	3/31/2011	Chris McCall AVP Facilities Management	UHD	Review all room CIP codes and revise records as needed to better identify the disciplines utilizing room spaces.	<b><i>Action Complete</i></b>

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as of March 31, 2011

Internal Audit Report Number	Report Title	Action No.	Total Actions	Est. Compl. Date	Responsibility For Action		Action To Be Taken	Status
					Name / Title	Entity		
					Risk Level: <b>High</b> <b>Medium</b> <b>Low</b>			
AR2009-22 (PRT)	UHS Facilities Development Project	14a	24	3/31/2011	Chris McCall AVP Facilities Management	UHD	Develop and implement detailed proration policies to assist the campus in improving the classification of space in the facilities inventory.	<i>Action Complete</i>
AR2009-22 (PRT)	UHS Facilities Development Project	15a	24	3/31/2011	Chris McCall AVP Facilities Management	UHD	Perform campus-wide room walk-through to ensure that reported room area (square footage) is accurate and verifiable.	<i>Partially Implemented - Updated Management's Response:</i> Campus-wide room measurements take place on an ongoing basis and corrections are tracked for submission to the THECB. To respond to this ongoing need, UHD Facilities Management hired a Facilities Data Analyst with excellent AutoCAD skills to measure and correct drawings on a continuous basis. All academic department spaces are currently being reviewed, measured, and analyzed for accurate coding with an emphasis on those academic departments administered out of UHD’s oldest and most renovated building, the One Main Building. This will be followed by all the university’s administrative units in the One Main Building. All inventories currently taking place and those in the queue will be completed before the next THECB annual certification. Estimated completion date: November 1, 2011.
AR2009-22 (PRT)	UHS Facilities Development Project	16a	24	3/31/2011	Chris McCall AVP Facilities Management	UHD	Work with representatives of the appropriate departments and colleges to stream-line processes and consolidate software packages where feasible.	<i>Action Complete</i>
AR2010-03	Information Security Standards	1c	11	1/1/2011	Mary Dickerson Executive Director, IT Security	UH	Update SAM 07.B.01, System Development Life Cycle and SAM 07.B.02, Software Documentation to address security requirements in all phases of development and acquisition of information resources, in accordance with TAC 202.	<i>Partially Implemented – Updated Management's Response:</i> SAM 07.B.02 has been signed by the President. SAM 07.B.01 is under executive review. Based on the comprehensive review of all IT policies, it is expected that SAM 07.B.01 will be recommended for rescission as these items are incorporated into other policies. Estimated completion date: May 31, 2011.

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					Name / Title	Entity		
					Risk Level: <b>High</b> <b>Medium</b> <b>Low</b>			
AR2010-03	Information Security Standards	3a	11	2/1/2011	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> A review of all IT policies has been completed. In collaboration with campus constituents, draft revisions have been prepared and are being tested before being submitted to the campus UPP for official review. Estimated completion date: August 31, 2011.
AR2010-03	Information Security Standards	5c	11	3/1/2011	Mary Dickerson Executive Director, IT Security	UH	Facilitate University-wide coordination and planning related to management of college/division IT resources by developing technical guidelines and reference materials, providing training to college/division based technical support staff, and coordinating meetings of college/division information resource managers to help ensure IT resources are adequately managed at the college/division level, including compliance with TAC 202.	<i>Partially Implemented – Updated Management's Response:</i> UIT management has confirmed all appointments for the colleges and most of the divisions. UIT is working with 3 remaining divisions to confirm final appointments. Estimated completion date: May 1, 2011.
AR2010-03	Information Security Standards	6c	11	2/1/2011	Mary Dickerson Executive Director, IT Security	UH	Perform and document a comprehensive security risk analysis of information resources, develop a security risk management plan, and obtain approval of the plan from the President (or her designee).	<i>Partially Implemented – Updated Management's Response:</i> A risk analysis has been conducted and results and methodology have been documented. The risk management plan has been incorporated into the annual security report to the President and is included in the FY 10 report currently under review. Estimated completion date: May 1, 2011.
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	4d	114	3/31/2011	Andrea Short Interim Director, Budget and Administration Dean's Office	UH	Work with the departments throughout the College to publicize all available scholarships on the College website, reduce excess equity balances in scholarship cost centers, and strengthen the scholarship procedures.	<i>Action Complete</i>

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					Name / Title	Entity		
					Risk Level: <span>High</span> <span>Medium</span> <span>Low</span>			
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	12d	114	1/31/2011	Steven Wallace Director Theater Department	UH	Restore deficit balances to zero or positive amounts and implement procedures to help prevent spending funds that are not budgeted.	<b>Partially Implemented - Updated Management's Response:</b> CLASS Dean's Office has taken on the financial responsibility of the School of Theatre and Dance. A budget has been agreed upon and monthly meetings will be held with the CLASS DBA and the Director of School of Theater and Dance, Revenue and expenses will be closely monitored and budget will be reduced if necessary. CLASS DBA is working with department chair to reduce existing negatives. Estimated completion date: December 31, 2011.
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	13d	114	1/31/2011	Steven Wallace Director Theater Department	UH	Restore project/grant cost center budgetary balances to zero or positive amounts and work with the appropriate office to close expired project/grant cost centers.	<b>Partially Implemented - Updated Management's Response:</b> Department is working with Office of Contracts and Grants to restore project cost centers to zero and close inactive grants. Estimated completion date: December 31, 2011.
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	26c	114	1/31/2011	Geoffrey Pierce Department Business Administrator Communication Sciences & Disorders	UH	Restore deficit budgetary balances to zero or positive amounts, implement procedures to prevent spending funds that are not available, and work with the appropriate office to close expired project/grant cost centers.	<b>Partially Implemented - Updated Management's Response:</b> Department is working with Office of Contracts and Grants to restore project cost centers to zero and close inactive grants. Estimated completion date: December 31, 2011.
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	33c	114	1/31/2011	Geoffrey Pierce Department Business Administrator Communication Sciences & Disorders	UH	Modify departmental procedures to help ensure that expenses requiring the approval of the Office of Contracts and Grants are submitted to that office for approval, in accordance with the sponsored agreements.	<b>Action Complete</b>
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	39b	114	3/31/2011	Linda Garza & Elizabeth Shepard Department Business Administrators Dean's Office	UH	Restore deficit balances to zero or positive amounts and implement procedures to help prevent spending funds that are not budgeted.	<b>Partially Implemented - Updated Management's Response:</b> Department has submitted journals to reduce fund 3 negative. Department will continue to work to resolve deficit in fund 4 cost centers. Estimated completion date: December 31, 2011.
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	67a	114	1/31/2011	Lynn Smith Department Business Administrator Anthropology Department	UH	Restore deficit budgetary balances to zero or positive amounts and implement procedures to prevent spending funds that are not available, in accordance with university policies.	<b>Partially Implemented - Updated Management's Response:</b> Department is working with Office of Contracts and Grants to restore project cost centers to zero and close inactive grants. Estimated completion date: December 31, 2011.

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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: <span>High</span> <span>Medium</span> <span>Low</span>				
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	78c	114	1/31/2011	Isaac Davis Department Business Administrator Psychology Department	UH	Restore deficit budgetary balances to zero or positive amounts, implement procedures to prevent spending funds that are not available, and work with the appropriate office to close expired project/grant cost centers.	<i>Partially Implemented - Updated Management's Response:</i> Department has cleared and closed some cost centers with deficits and continues to work with Office of Contracts and Grants to close remaining. Estimated completion date: December 31, 2011.	
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	83b	114	11/30/2010	Lauren Neely Department Business Administrator Center for Public Policy	UH	Restore deficit fund balances to zero or positive amounts and implement procedures to prevent spending funds that are not available.	<i>Action Complete</i>	
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	89a	114	1/31/2011	Linda Garza & Elizabeth Shepard Department Business Administrators Dean's Office	UH	Restore deficit balances to zero or positive amounts and implement procedures to help prevent spending funds that are not budgeted. (Religious Studies)	<i>Not Implemented - Updated Management's Response:</i> College Administrator will work with department to review and remove prior year negative balances. Estimated completion date: December 31, 2011.	
AR2010-15	College of Sciences and Technology - Engineering Technology, Departmental Review Follow-up	1b	1	3/31/2011	Carolyn Ivey Director Office of Sponsored Programs	UHD	Develop procedures to help ensure that, on an annual basis, all academic staff members engaging in sponsored projects are certifying their knowledge of and compliance with the conflict of interest policy of the University.	<i>Action Complete</i>	
AR2010-17	Departmental Reviews UH Law Center	1	13	2/1/2011	Mybao Nguyen Director of College Business Operations	UH	Ensure timely completion of all required training, in accordance with university policies.	<i>Partially Implemented - Updated Management's Response:</i> Law Center mandatory training guidelines were established. However, mandatory training was not completed by more than 40 individuals. Estimated completion date: February 1, 2012.	
AR2010-18	Departmental Review College of Architecture	1	7	2/1/2011	Mary Benham College Business Administrator	UH	Ensure the timely completion of all required training, in accordance with university policies.	<i>Action Complete</i>	

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					Name / Title	Entity		
					Risk Level: <span>High</span> <span>Medium</span> <span>Low</span>			
AR2010-18	Departmental Review College of Architecture	5b	7	2/28/2011	David Brashear Manager, Information Systems and Services	UH	Work with the University Information Technology Department to relocate the College's file and web servers to the Computing Center and/or obtain file space on a University server to help ensure data is backed-up and stored off-site and that there are adequate environmental controls over the equipment.	Action Complete
AR2011-11	College of Optometry, Departmental Review	1	3	5/31/2011	Mary Juarez College Business Administrator	UH	Restore deficit budgetary balances to zero or positive amounts and implement procedures to prevent spending funds that are not available.	Action Complete
AR2011-13	Departmental Reviews UHV Provost Office	1	4	2/28/2011	Veronica Baladez Senior Secretary LEAD and Student Recruitment	UHV	Prepare and approve cost center verifications in a timely manner, in accordance with university policies.	Action Complete
AR2011-13	Departmental Reviews UHV Provost Office	2	4	2/28/2011	Mary Densman Senior Secretary Office of Admissions and Records	UHV	Prepare and approve cost center verifications in a timely manner, in accordance with university policies.	Action Complete
AR2011-13	Departmental Reviews UHV Provost Office	3	4	3/31/2011	Kathy Sullivan Senior Secretary Library	UHV	Prepare and approve cost center verifications in a timely manner, in accordance with university policies.	Action Complete
AR2011-13	Departmental Reviews UHV Provost Office	4	4	3/31/2011	Kathy Sullivan Senior Secretary Library	UHV	Review payroll registers to help ensure employee earnings and leave records are accurate, in accordance with university policies.	Action Complete
AR2011-19	Financial Aid, Pell Grants	1	4	2/28/2011	LaTasha Goudeau Director of Financial Aid Financial Aid Department	UHD	Determine and implement appropriate access roles in Banner Financial Aid to help ensure that employees' access is based on their job responsibilities.	Partially Implemented – Updated Management’s Response: The Student Financial Aid Department is working with the UHD IT Division to modify predefined Banner roles based on employee job responsibilities, and assigning employees the appropriate roles. Estimated completion date: April 26, 2011.

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					Name / Title	Entity		
					Risk Level: <b>High</b> <b>Medium</b> <b>Low</b>			
AR2011-19	Financial Aid, Pell Grants	3	4	2/28/2011	LaTasha Goudeau Director of Financial Aid Financial Aid Department	UHD	Implement functionality in Banner Financial Aid to automatically log users off the system after a specified time period of inactivity.	<b><i>Partially Implemented – Updated Management’s Response:</i></b> The Financial Aid Department and UHD IT Division are working with the Banner Financial Aid representative on the security of the application to automatically log users off the system after 30 minutes of inactivity. Estimated completion date: April 26, 2011.
SP2009-05	Job Order Contracts	1d	4	3/31/2011	Melissa Rockwell Exec. Director of Facilities Management	UHS	Modify SAM 03.C.03, Repair and Construction Funds, to require the AVC/AVP for Plant Operations to promulgate rules and procedures for repair and construction projects that comply with the Texas Education Code.	<b><i>Action Complete</i></b>
CCM-0901	Calhoun Lofts Residence Hall Interim Construction Audit	1b	15	3/31/2011	Melissa Bellini Exec. Director of Facilities Management Spencer Moore, Executive Director, FP&C	UH	Modify/develop departmental policies and procedures for construction management to address process for audits and related protocol.	<b><i>Partially Implemented - Updated Management's Response:</i></b> Departmental audit procedures related to major construction are currently being drafted by FP&C as part of their major construction project delivery process. Estimated completion date: August 31, 2011.
SAO Report #05-010	The Protection of Confidential Information and Critical Systems	20j	25	3/1/2011	Malcolm Davis Executive Director for Public Safety - Chief of Police	UH	Review and modify, as necessary, the existing comprehensive emergency plan/business continuity plan to ensure that it adequately addresses the requirements in Texas Administrative Code, Section 202, Business Continuity Plan Elements.	<b><i>Partially Implemented - Updated Management's Response:</i></b> A comprehensive emergency plan/business continuity plan has been developed. The testing and implementation of this plan is expected to be completed by August 1, 2011.
SAO Report #11-316	Federal Portion of the Statewide Single Audit, FY2010	1	7	1/31/2011	Lear Hickman Asst. Dir. Student Financial Aid	UH	Update policies and procedures to report direct loan disbursements in a timely manner in accordance with federal regulations.	<b><i>Action Complete</i></b>
SAO Report #11-316	Federal Portion of the Statewide Single Audit, FY2010	2	7	3/1/2011	Mike Glisson UHS/UH Controller	UH	Modify UH procurement policy for purchases over \$5,000 for documentation retention requirements for competitive bidding and over \$25,000 to help ensure the suspension and debarment requirements are met.	<b><i>Action Complete</i></b>

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					Name / Title	Entity		
					Risk Level: <span>High</span> <span>Medium</span> <span>Low</span>			
SAO Report #11-316	Federal Portion of the Statewide Single Audit, FY2010	3	7	3/1/2011	Beverly Rymer Director, Grants and Contracts	UH	Modify Division of Research policies to help ensure that prospective subrecipients to a federal grant are not suspended, debarred, or otherwise excluded from federal contracts.	Action Complete
SAO Report #11-316	Federal Portion of the Statewide Single Audit, FY2010	4	7	2/1/2011	Beverly Rymer Director, Grants and Contracts	UH	Implement Division of Research procedures to notify subrecipients via email of the federal award number, Catalog of Federal Domestic Assistance number, and amount of American Recovery and Reinvestment Acts funds disbursed at the time of disbursement to subrecipients.	Action Complete
SAO Report #11-316	Federal Portion of the Statewide Single Audit, FY2010	6	7	2/28/2011	LaTasha Goudeau Director of Financial Aid Financial Aid Department	UHD	Implement separation of duties between application, database and servers in the new Banner financial aid application to ensure that no one individual will have control of the business process.	Partially Implemented – Updated Management’s Response: The Banner Financial Aid application was implemented on March 8, 2011. The application is in the post-implementation phase and the Student Financial Aid Department is working with the UHD IT Division in reviewing user access to ensure that no one user will have full control of the business process. Estimated completion date: April 26, 2011.
SAO Report #11-316	Federal Portion of the Statewide Single Audit, FY2010	7	7	2/28/2011	LaTasha Goudeau Director of Financial Aid Financial Aid Department	UHD	Ensure that the Banner financial aid application implementation results in funds being applied to students' accounts in a timely manner, maintains documentation of financial history reviews for transfer students and reports actual disbursement dates to the U.S. Department of Education's Common Origination and Disbursement System in a timely manner.	Action Complete
SAO Report #11-555	Financial Portion of the Statewide Single Audit, FY2010	1	2	4/30/2011	David Ellis Executive Director of Financial Reporting	UH	Implement additional reviews and procedures when creating the award information in our financial system to help ensure that the correct CFDA number is associated with each federal award and implement additional review of SEFA submission to help ensure that expenses are reported under the correct CFDA number.	Action Complete

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					Name / Title	Entity		
					Risk Level: <b>High</b> <b>Medium</b> <b>Low</b>			
SAO Report #11-555	Financial Portion of the Statewide Single Audit, FY2010	2	2	4/30/2011	George Anderson AVP Business Affairs	UHD	Implement additional reviews and procedures when creating the award information in our financial system to help ensure that the correct CFDA number is associated with each federal award and implement additional review of SEFA submission to help ensure that expenses are reported under the correct CFDA number.	Action Complete

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON CLEAR LAKE

OFFICE OF  
ACADEMIC AFFAIRS AND PROVOST  
DEPARTMENTAL REVIEWS

REPORT NO. AR2011-22

**UNIVERSITY OF HOUSTON SYSTEM  
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON – CLEAR LAKE  
OFFICE OF ACADEMIC AFFAIRS AND PROVOST  
DEPARTMENTAL REVIEWS**

The objective of the Departmental Review is to determine whether departments are conducting financial and administrative activities in compliance with university policies. We performed 17 departmental reviews in the Office of Academic Affairs and Provost. We conducted interviews, reviewed documentation, and performed other audit procedures, as necessary, in testing compliance with various policies for each compliance area. We noted no matters that we considered to be significant engagement observations. We noted that the departments reviewed were 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 reviews and the Division:

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

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Don F. Guyton  
Chief Audit Executive  
March 22, 2011

**University of Houston System  
Internal Auditing Department**

**University of Houston – Clear Lake  
Office of Academic Affairs and Provost  
Departmental Reviews**

<b>Compliance Area</b>	<b>Provost and Institutional Research</b>	<b>Academic Records</b>	<b>Career and Counseling</b>	<b>Dean of Students</b>	<b>Distance Education</b>	<b>Health and Disability</b>
Management Oversight	✓	N/A	N/A	N/A	N/A	N/A
Operational Activities	N/A	N/A	N/A	N/A	N/A	N/A
Policies, Procedures, Required Training, And Reporting	✓	(1)	✓	✓	✓	(1)
Cost Center Management	✓	✓	(1)	✓	✓	✓
Payroll	✓	✓	✓	✓	(2)	✓
Human Resources	✓	✓	✓	(1)	✓	✓
Change Funds And Cash Receipts	N/A	(1)	✓	(1)	N/A	✓
Procurement And Travel Cards	✓	✓	✓	(1)	✓	✓
Departmental Expenses	✓	✓	✓	✓	✓	✓
Contract Administration	✓	✓	✓	N/A	✓	✓
Property Management	✓	✓	✓	✓	(1)	(1)
Departmental Computing	✓	✓	✓	✓	✓	✓
Scholarships	N/A	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	(1)	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**

**University of Houston – Clear Lake  
Office of Academic Affairs and Provost  
Departmental Reviews**

<b>Compliance Area</b>	<b>IISS</b>	<b>Neumann Library</b>	<b>Office of Admissions</b>	<b>Office of Sponsored Programs</b>	<b>Office of Student Financial Aid</b>	<b>Pearland Campus Operations</b>
Management Oversight	N/A	N/A	N/A	N/A	N/A	N/A
Operational Activities	N/A	N/A	N/A	N/A	N/A	N/A
Policies, Procedures, Required Training, And Reporting	✓	(1)	(1)	✓	✓	✓
Cost Center Management	✓	✓	✓	✓	✓	✓
Payroll	✓	(1)	✓	✓	✓	✓
Human Resources	✓	✓	✓	✓	✓	✓
Change Funds And Cash Receipts	✓	✓	(1)	✓	✓	N/A
Procurement And Travel Cards	✓	✓	✓	✓	N/A	✓
Departmental Expenses	✓	✓	✓	✓	✓	✓
Contract Administration	✓	✓	✓	✓	✓	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**
- Ø **Opportunity for Improvement**
- ( ) **Number of Instances of Non-Compliance**
- N/A **Not Applicable**

**University of Houston System  
Internal Auditing Department**

**University of Houston – Clear Lake  
Office of Academic Affairs and Provost  
Departmental Reviews**

<b>Compliance Area</b>	<b>SAS and Academic Services</b>	<b>Student Life</b>	<b>Student Services</b>	<b>UCT</b>	<b>Writing Center</b>
Management Oversight	N/A	N/A	N/A	N/A	N/A
Operational Activities	N/A	N/A	N/A	N/A	N/A
Policies, Procedures, Required Training, And Reporting	✓	(1)	✓	✓	✓
Cost Center Management	✓	✓	✓	✓	✓
Payroll	✓	(1)	✓	(1)	✓
Human Resources	✓	✓	✓	✓	✓
Change Funds And Cash Receipts	(1)	(1)	✓	(1)	N/A
Procurement And Travel Cards	(1)	(1)	(1)	✓	✓
Departmental Expenses	✓	✓	✓	✓	✓
Contract Administration	✓	✓	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
Research	✓	N/A	N/A	N/A	N/A

- ✓ **Fully Complies**  
 Ø **Opportunity for Improvement**  
 ( ) **Number of action items required to address non-compliance**  
 N/A **Not Applicable**

**UNIVERSITY OF HOUSTON SYSTEM  
INTERNAL AUDITING DEPARTMENT  
DEPARTMENTAL REVIEW**

**UHCL OFFICE OF ACADEMIC AFFAIRS & PROVOST  
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.

**ACADEMIC RECORDS**

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

- Related Party Disclosure forms were not completed by all applicable employees.

**Change Fund and Cash Receipts**

- Cash receipts were not being deposited in a timely manner.

**CAREER & COUNSELING**

**Cost Center Management**

- Cost center verifications were not performed on a monthly basis.\*

**Research**

- Grant related expenses were not being monitored for compliance with the grant conditions and university policies. \*

**DEAN OF STUDENTS**

**Human Resources**

- A termination clearance form was not timely completed for one employee.

**Change Funds and Cash Receipts**

- A cash receipt less than \$100 was not deposited within 5 working days of receipt.

**Procurement and Travel Cards**

- A procurement card expense report was not signed by the cardholder or approved by the supervisor by the 20<sup>th</sup> of the month.

## **DISTANCE EDUCATION**

### **Payroll**

- A leave request form was not completed for one employee.
- Departmental leave records were not reconciled to leave accruals on a monthly basis.

### **Property Management**

- A Renewal Form for Off-Campus Property was not completed annually.

## **HEALTH & DISABILITY**

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

- Related Party Disclosure forms were not completed by all applicable employees.

### **Property Management**

- A Renewal Form for Off-Campus Property was not completed annually.

## **LIBRARY**

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

- External Consulting and Related Party Disclosure forms were not completed by all applicable employees.

### **Payroll**

- One time and effort report was not approved timely by the employee's supervisor.

## **OFFICE OF ADMISSIONS**

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

- Related Party Disclosure forms were not completed by all applicable employees.

### **Change Fund and Cash Receipts**

- Cash receipts were not being deposited in a timely manner.

## **STUDENT ADMINISTRATION SYSTEMS & ACADEMIC SERVICES**

### **Change Funds and Cash Receipts**

- A deposit was not verified and signed by two authorized employees.

**Procurement and Travel Cards**

- Procurement card expense reports were not being signed by the cardholder and approved by the supervisor by the 20<sup>th</sup> of the month.

**STUDENT LIFE****Policies, Procedures, Required Training and Reporting**

- Annual mandatory training was not completed by all employees.

**Payroll**

- One time and effort report was not approved timely by the employee's supervisor.

**Change Funds and Cash Receipts**

- An allowance for doubtful collections has not been created for outstanding accounts receivables.\*

**Procurement and Travel Cards**

- A procurement card expense report was not signed by the cardholder or approved by the supervisor by the 20th of the month.

**STUDENT SERVICES****Procurement and Travel Cards**

- Procurement Card expense reports were not signed by the cardholder and approved by the cardholder's supervisor by the 20th of the month.

**UNIVERSITY COMPUTING & TELECOMMUNICATIONS****Payroll**

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

**Change Funds and Cash Receipts**

- Cash receipts were not being deposited in a timely manner.

**University of Houston System  
Internal Auditing Department**

**University of Houston – Clear Lake  
Office of Academic Affairs and Provost  
Background Information**

**Background provided by the Office of Academic Affairs and Provost:**

The mission of the office of the Senior Vice President for Academic Affairs and Provost is to provide intellectual, ethical and financial direction for the university's academic and student service activities. The Office provides leadership for teaching, research and service, as well as for administrative, business, student and information services within the academic component. Quality, accessibility and cultural diversity are values the office strives to enhance. Our goal is to assist faculty with the implementation of programs that emphasize high standards for teaching and that develop creative and critical thinking skills in our students. We intend to help students with a seamless transition from the time of application to admission through graduation. For the purposes of this report, the division is composed of the Office of the Provost, Student Services, Information Resources, Academic Affairs and Enrollment Management.

Under the leadership of the Provost's Office we have accomplished a great deal in the last 2-3 years. With opening of the Student Success Center, the Student Services division has reduced our withdrawal rate by 32%. The cultural arts outreach arm of that division has obtained a grant to present the Tournées Festival of French Films and increased our theater usage by 15% and revenue by 10%. New campus leadership programs have also shown a great deal of success and satisfaction among our students.

The Information Resources Division has shown growth in the reorganization of the Environmental Institute of Houston (EIH). As of FY 2011, UH and UHCL EIH campus operations will be centralized at UHCL. The UHCL Pearland Campus was also opened in August 2010 and campus operations fall under the direction of this division. The Office of On-line Programs was also established to coordinate and facilitate the growth and expansion of online programs at UHCL. The role of the office is to organize and support the development of our new online and web-supported courses and online programs to benefit the entire UHCL community.

The Neumann Library acquired the donated papers of Dr. Maxime Faget, Director of Engineering and Development at NASA/JSC and designer of the Project Mercury space capsule, expanded all acquisitions and created a mobile website for the library. University Computing and Telecommunications completed the installation of an automated backup system throughout the campus and developed and implemented a plan for migrating from UHCL's existing online course management system, WebCT to UHCL's new course management software, Blackboard.

The Enrollment Management division has helped to lead us to record enrollments this last academic year with new marketing strategies and operational efficiencies within that division.

They developed and introduced the Automatic Transfer Scholarship program which received the 2009 Successful Transfer Enhancement Program Gold Award in Best Practices in Transfer Enrollment Management from the Texas Higher Education Coordinating Board. And developed the Transfer Credit Guide, and online application that gives the public access to all course articulations in the UHCL transfer credit database.

Academic Affairs has restructured the Office of Institutional Effectiveness to gain greater operational efficiencies. They have also streamlined/simplified operations and created an Office of Institutional Research, responsible for surveys and reporting and an Office of Planning and Assessment, responsible for all planning and assessment activities at the university level. In response to a mandate by The Southern Association of Schools and Colleges and the Texas Higher Education Coordinating Board, the Office of Planning and Assessment was established and will house the UHCL Quality Enhancement Plan initiative. Several international outreach/recruiting trips were initiated resulting in increased student enrollments and partnerships with international universities in targeted countries. English as a second language was also established on campus as an outreach to the extensive international community in the Houston area. A new grant writing team was hired and our proposal submission rate has increased substantially and along with that, the university has received \$952,805 in new research funding with \$4.4 million pending.

#### **Budget/Financial Summary:**

During fiscal year 2011, with a staff of 344 FTE, the Division administered 316 cost centers with an operating M&O budget of \$18,369,889.

The following table presents the fund balance reconciliation for the Division for FY 2010:

Beginning Fund Balance (9/1/09)	\$ 6,864,860
Revenues	19,353,140
Expenditures	(34,251,084)
Transfers/Other	15,370,488
Ending Balance (8/31/10)	<u>\$ 7,337,404</u>

UNIVERSITY OF HOUSTON - CLEAR LAKE  
OFFICE OF ACADEMIC AFFAIRS AND PROVOST  
SUMMARY OF REVENUES AND EXPENDITURES

<u>Account</u>	<u>Description</u>	<u>FY2010</u>	<u>FY2009</u>
<u>Revenue</u>			
40100-40299	Student Tuition	\$ 272,921	\$ 232,440
40500-40699	Student Service Fees	(3,151,085)	(2,907,665)
40700-40999	Other Fees	(5,541,566)	(4,976,265)
55500-55999;56700-57999	Waivers & Expenses	130,116	121,587
41100-41499	State Appropriations	(52,993)	(84,282)
41600-41899	Federal Grants & Contracts	(7,404,981)	(5,050,264)
41900-42099	Federal Pass Through Grants/Contracts	(47,330)	(13,227)
42100-42299	State Grants & Contracts	(689,268)	(619,636)
42300-42499	State Pass Through - Other State Agencies	(1,334,860)	(437,066)
42500-42699	Local Grants & Contracts	(8,433)	(18,085)
42700-43199; 44400-44428; 44440	Private Gifts, Grants and Cont	(196,865)	(135,259)
43300-43499	Other Investment Income	0	(4,401)
43500-43599	Endowment Income Distribution	(140,165)	(80,850)
43600-43630; 43634-43999	Sales & Services - E & G	(12,612)	(7,347)
43631-43633; 44000-44399	Sales & Services - Auxiliary	(192,181)	(161,584)
44429-44439; 44441-45999; 49504	Other Revenue Sources	(404,706)	0
50050-50099	Recovered Costs	(579,131)	(560,759)
Total Revenue		<u>\$ (19,353,140)</u>	<u>\$ (14,702,662)</u>
<u>Cost of Goods Sold</u>			
50000-50049	Cost of Goods Sold	\$ 84,206	\$ 51,958
Total Cost of Goods Sold		<u>\$ 84,206</u>	<u>\$ 51,958</u>
<u>Payroll</u>			
50100-50999	Salaries & Wages	\$ 12,163,981	\$ 11,009,774
51000-51399	Fringe Benefits	1,131,228	996,377
Total Payroll		<u>\$ 13,295,209</u>	<u>\$ 12,006,151</u>
<u>M &amp; O</u>			
52000-52199	Professional Services	\$ 18,347	\$ 29,656
52200-52399	General Services	354,452	256,997
52400-52499	Academic Service	32,000	44,525
52500-52599	Printing, Copying, & Reproduction	199,128	334,340
52600-52799	Utilities & Sanitation	1,679	1,442
52800-52999	Communication & Transportation	689,959	667,469
53000-53499	Advertising Promotion & Public	231,540	277,801
53500-53599	Rental Lease & Royalties	274,150	137,650
53600-53699	Maintenance	0	2,388
53700-53799	Routine Repair	595,418	543,307
53850-53899	Contracting Services	661,798	669,179
53900-53999	General Supplies	530,347	482,859
54000-54099	Lab Research Supplies	5,117	10,761
54100-54199	Health & Clinical Support	5,742	11,724
54200-54299	Construction Expenses	1,380	20,057
54300-54349	Facilities & Ground Support	1,890	779
54350-54449	Parts & Furnishing	1,493,190	1,564,911
54450-54549	Misc Supplies & Material	3,081	1,955
54550-54699	Legal Services	2,505	2,678
54700-54799	Financial Tax & License Cost	15,737	27,543
54800-54899	Other Recurring Expenses	228,766	218,870
54900-54999	Employee Expenses	85,020	108,478
55000-55199	Special Program & Events	29,953	32,004
55300-55499	Financial Aid	12,972,317	9,279,610
56000-56499	Travel	218,101	197,812
56500-56599	Contracts & Grants	44,516	30,486
Total M&O		<u>\$ 18,696,132</u>	<u>\$ 14,955,282</u>
<u>Capital Outlay</u>			
58000-58999	Capital Outlay	\$ 2,175,537	\$ 2,624,596
Total Capital Outlay		<u>\$ 2,175,537</u>	<u>\$ 2,624,596</u>
Total Cost of Goods Sold, Payroll, M&O and Capital Outlay		<u>\$ 34,251,084</u>	<u>\$ 29,637,987</u>

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM

EXECUTIVE AND FOREIGN TRAVEL  
ALL COMPONENTS

REPORT NO. AR2011-23

**UNIVERSITY OF HOUSTON SYSTEM  
INTERNAL AUDITING DEPARTMENT**

**EXECUTIVE AND FOREIGN TRAVEL  
ALL COMPONENTS**

**BACKGROUND/ SCOPE OF WORK:**

The Internal Auditing Department periodically reviews travel related expenditures of university employees. The scope of this review included travel expenditures of executive management, including the Presidents (except the UHS/UH Chancellor/President which receives an annual review), Vice Presidents and Deans (UH only), and foreign travel relating to all employees. For UH, we selected a sample of travel expenditures incurred from May 2009 to November 2009; for UHCL, UHD and UHV we selected a sample of travel expenditures incurred during FY 2009.

The table below contains the total domestic and foreign related travel expenditures for fiscal years 2009 and 2010 for all components:

Domestic Travel Expenditures		
<u>Component</u>	<u>FY 2009</u>	<u>FY 2010</u>
UHS	179,177	146,322
UH	12,293,039	11,989,637
UHCL	758,198	766,409
UHD	1,161,522	1,276,978
UHV	756,724	759,726

Foreign Travel Expenditures		
<u>Component</u>	<u>FY 2009</u>	<u>FY 2010</u>
UHS	7,956	17,263
UH	1,407,349	1,461,386
UHCL	83,303	100,459
UHD	182,565	92,721
UHV	57,926	48,798

**OBJECTIVE:**

The objective of our review was to determine if travel expenditures were appropriately documented and allowable under university policy.

## **CONCLUSION:**

In our opinion, the majority of the travel expenditures were appropriately documented and allowable under university policies. We noted no matters that we considered to be significant engagement observations. We recommended that UHCL modify its travel guidelines to address all aspects of the System Business Travel policy, including provisions for the timely preparation of reimbursement requests and the approval by the employee's supervisor or higher authority and for approval of the President's travel expenditures by the Chancellor or designee. In addition, we noted certain instances of non-compliance with university policies at UH, UHD and UHV.

Appendix A contains the areas where there are opportunities for improvement, recommendations that will enhance the control environment in these areas, management's response, and instances of non-compliance for UH, UHD, and UHV.

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Don F. Guyton  
Chief Audit Executive  
April 14, 2011

**UNIVERSITY OF HOUSTON SYSTEM  
INTERNAL AUDITING DEPARTMENT**

**APPENDIX A**

**OPPORTUNITIES FOR IMPROVEMENT**

**Travel Guidelines (UHCL)**

**Finding:** During our review of the University of Houston-Clear Lake travel guidelines, we noted that the guidelines do not address all aspects of SAM 03.A.03, Business Travel. Specifically, the guidelines do not have provisions for the approval of travel, travel expense reimbursement, and other matters related to employee travel; and provisions for approval by the employee's supervisor or higher authority and for approval of the President's travel expenditures by the Chancellor or designee. In addition, there is no requirement for the timely preparation of travel expense reimbursement requests, as required by the Internal Revenue Service. We noted the following during the audit:

- Travel vouchers for three trips made by the President were not approved by the Chancellor or designee.
- Travel vouchers for two foreign travel trips made by two Faculty Members were prepared more than 60 days after the travel dates.

**Recommendation:** Management should modify its travel guidelines to address all aspects of the System Business Travel policy, including provisions for the timely preparation of reimbursement requests and the approval by the employee's supervisor or higher authority and for approval of the President's travel expenditures by the Chancellor or designee.

**Management's Response:** UHCL will update its travel guidelines to address each issue raised in the finding. UHCL has had an internal procedure that has been followed for many years. This procedure does not require a supervisor to sign a travel expense report unless the expenses exceed 10% of the authorized travel amount on the travel authorization. UHCL was unaware that the Presidents travel would fall under SAM 03.A.02 Entertainment Expenditures. Section 3.3 of the SAM requires all presidential expenditures whether entertainment related or not be approved by the Chancellor or designee. UHCL will modify its procedures to make sure all of the President's travel expense reports are approved by the Chancellor or designee. These actions will be completed by August 31, 2011.

### **Non-compliance with University Policies (UHS/UH)**

During our review of travel related expenditures of executives and employees conducting foreign travel, we noted the following instances of non-compliance.

- Travel Request forms for trips made by three Dean's were approved after the departure date. (MAPP 04.02.01B § IV.A.)
- The Travel Request form relating to a foreign trip made by a Faculty Member was not approved by the appropriate Vice President or designee. (Draft MAPP 04.02.01B § IV.B.8.)
- Two Faculty Members reimbursed the university for personal expenditure's inadvertently claimed on the travel expense report while on foreign trips. (MAPP 04.02.01B § VIII.H.)
- The travel agendas and trip reports relating to eleven foreign trips made by Deans and Faculty Members were not submitted to the appropriate VP following the trips. (UH Travel Policy Changes for expenditures incurred after May 8, 2009; Draft MAPP 04.02.01B § IV.C.)
- Documentation uploaded into PeopleSoft relating to a domestic trip made by a Dean contained the entire Travel Card number; and documentation relating to a foreign trip made by a Dean contained his entire personal credit card number. (MAPP 04.02.05 § II.C.; Travel Card Guidelines)

### **Non-compliance with University Policies (UHD)**

During our review of travel related expenditures of executives and employees conducting foreign travel, we noted the following instances of non-compliance.

- The travel voucher for a trip made by the former Provost and the travel voucher for a foreign trip made by a Faculty Member were prepared more than 60 days after the travel date. (PS 01.A.08 § 4.1.8, Travel Policy)
- Travel Request forms relating to foreign trips for two Faculty Members were not approved by the President or designee. (PS 01.A.08 § 3.2.1, Travel Policy)
- A Travel Request form was not prepared for a foreign trip taken by a Faculty Member. (PS 01.A.08 § 2.9, Travel Policy)

## **Non-compliance with University Policies (UHV)**

During our review of travel related expenditures of executives and employees conducting foreign travel, we noted the following instances of non-compliance.

- The Travel Request form for a trip made by the former President was approved by the Chancellor's designee after the departure date. (Travel Guide; General Office Procedures § 6.3)
- The Travel Request form for a trip made by the Provost was approved by the former President after the departure date. (Travel Guide; General Office Procedures § 6.3)
- The Travel Request form for a foreign trip made by a Faculty Member was approved by the former President after the departure date. (F.8 Foreign Travel Policy)

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON  
RESEARCH ADMINISTRATION

REPORT NO. AR2011-24

**UNIVERSITY OF HOUSTON SYSTEMS  
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON  
RESEARCH ADMINISTRATION**

**BACKGROUND/OBJECTIVE:**

We performed a review of Research Administration at the University of Houston to determine whether the University has established management practices for externally funded programs as promulgated by the Council on Governmental Relations (COGR) in their Guide to Effective Management Practices. The Guide addresses the following management practice areas:

- Institutional Program for Effective Compliance Practices
- Sponsored Program Management
- Financial Administration
- Procurement
- Management of Equipment
- Employment
- Electronic Research Administration
- Assessments and Audits
- Protection Regulations
- Research Integrity
- Intellectual Property
- Export, Global Activities and Relationships with Foreign Entities

**BACKGROUND PROVIDED BY THE DIVISION OF RESEARCH:**

UH Research Administration is comprised of the Division of Research (DOR), Research Accounting and Academic Support. The DOR supports the faculty in the pursuit of new sponsored projects and the administration of the current sponsored projects. DOR has a mixed centralized/decentralized model, relying on staff in the colleges (supported by Academic Affairs) in addition to its centralized staff. Additionally, DOR relies on Research Accounting (under Finance and Administration) to manage accounts receivable and facilitate collections. The immediate goals are to facilitate the improvement and development of the research climate at UH and to be prepared to meet the future sponsored projects needs of the faculty, staff, and administration.

DOR provides a centralized office for all sponsored project activities thereby protecting the integrity of UH's research infrastructure and providing professional support to the faculty. DOR provides a wide range of pre-award and post-award services including identification of funding sources, assistance with sponsor forms and electronic submission requirements, training for department/college research administrators and policy development

and compliance. DOR maintains current information about funding sources and their regulations and also subscribes to electronic publications and databases that enable assessments of funding priorities for federal, state, foundation, corporate, and private sources.

### **SCOPE OF WORK:**

We interviewed management personnel of DOR and other departments, reviewed written policies and procedures, reviewed management systems and internal controls, and performed other audit procedures, as appropriate.

### **CONCLUSION:**

In our opinion, management has established policies and procedures for externally funded programs consistent with practices promulgated by most of these guidelines. Although we noted no matters that we consider to be significant engagement observations, we identified opportunities to improve the administration of externally funded programs in 1 of the 12 COGR management practice areas, Financial Administration – cost center management (deficit budgets, grant closeout, and inactive cost centers) and accounts receivable. We also identified opportunities for improvement in other related areas: export controls and indirect cost allocation. Management is in the process of addressing these opportunities for improvement.

Appendix A lists the areas where there are opportunities for improvement, recommendations that will enhance the control environment in these areas, and management's responses.

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Don F. Guyton  
Chief Audit Executive  
April 20, 2011

## APPENDIX A

### OPPORTUNITIES FOR IMPROVEMENT

#### Deficit Grant Budget Balances

During the previous three fiscal years while performing Departmental Reviews, we identified several grant/sponsored project cost centers that had deficit budget balances as follows:

<u>Fiscal Year</u>	<u>Number of Cost Centers with Deficit Budget Balance</u>	<u>Deficit Budget Amount</u>
2010	49	\$ 363,068
2009	55	\$ 423,795
2008	53	\$ 507,337

According to the Division of Research (DOR), there are 203 expired grants at the University of Houston, dating back to FY 1996, that had deficit budget balances totaling approximately \$1.2 million. Deficit budget balances prior to FY 2008 totaled approximately \$792,000. Deficit budget balances are the result of incurring expenditures in excess of the grant award amount/budget or an incorrect budget. In addition, incurring expenditures in excess of the grant award amount results in a deficit cash balance for that cost center.

**Action Taken by Management:** According to DOR it has worked with the academic units to clear 191 of the 203 expired grant cost centers and expects to have the remainder closed by April 30, 2011. The 12 remaining cost centers have deficit budget balances totaling \$50,346.

DOR informed us that they are not directly responsible for the management for many of the grants with deficit budget balances and are currently working with departmental management in the Colleges, as well as working with management in the Research Centers that report to DOR, to determine sources of funding for expired grants with deficit budget balances. Also, during the audit, DOR processed budget adjustments, totaling \$3.3 million to correct deficit budget balances related to four UHS grants.

MAPP 05.02.01, Expenditure Authority, states that the person approving/certifying transactions is ensuring the following:

- The expenditure is made for the purpose for which funds were budgeted.
- The expenditure is properly authorized;
- The procurement process was followed;
- The funds required are available; and
- The transaction complies with pertinent rules and regulations.

**Recommendation (DOR):** DOR should work with Academic Affairs and Administration and Finance to develop procedures to monitor grant cost centers to help ensure that deficit budgets are addressed in a timely manner. In addition, DOR should work with the appropriate departmental management to obtain funds to off-set the deficit grant budget balances caused by overspending.

**Management's Response (DOR):** DOR, Academic Affairs and Administration and Finance are working together to develop procedures to monitor cost centers and expect them to be fully implemented by August 31, 2011.

### **Expired Grant Closeout Process**

According to DOR, there are 1459 expired UH grant cost centers, dating back to FY 1981, that have not been closed. As a result of the \$5.6 million write-off of uncollectible accounts receivable that was discussed during the February 18, 2011 Administration and Finance Committee Meeting of the Board of Regents, 499 of these cost centers with grant end dates prior to FY 2008 have been reviewed and are in the process of being closed. However, 960 expired grant cost centers have not been closed for various reasons, such as, uncollectable accounts receivable subsequent to FY 2007, deficit budget balances incurred by overspending, and/or incorrect budgets.

**Action Taken by Management:** According to DOR, as of April 25, 2011, it has identified 613 of the 960 expired grant cost centers which are available for immediate close out. The remaining cost centers require additional analysis.

According to DOR, current procedures help ensure that grant cost centers that have expired are being closed in a timely manner. However, there are several grants that expired during the past several fiscal years that have not been closed timely due to the Division's priorities and resources, creating a backlog of work. DOR initially addressed the closeout of the expired grants prior to FY 2008 that had uncollectable accounts receivable and is currently in the process of addressing the other expired grant cost centers.

**Recommendation (DOR):** DOR should work with Academic Affairs and Administration and Finance to develop procedures to help ensure that grant cost centers are closed in a timely manner. In addition, DOR should review all expired grant cost centers and work with responsible departmental management to close the grant cost centers, as appropriate.

**Management's Response (DOR):** DOR, Academic Affairs and Administration and Finance are working together to develop procedures to ensure cost centers are closed timely and expect them to be implemented by August 31, 2011.

## **Accounts Receivable (Non-Federal Sponsors)**

Research Financial Services and General Accounting share responsibilities for billing, recording, and collecting accounts receivable for non-letter of credit sponsors, which are mainly non-federal sponsors. As of August 31, 2010, total accounts receivable for non-letter of credit sponsors totaled \$5.1 million. The receivable includes unpaid invoices, prior to FY 2008, totaling \$3.7 million. In addition, we noted the following:

- Accounts receivable are manually maintained on an Excel spreadsheet that is not integrated with either University's financial system or Research's information system (RD2K).
- Electronic payments may not be readily attributable to an invoice due to insufficient identifying information.
- Formal comprehensive collection procedures to monitor accounts receivable through resolution have not been fully implemented.

We were informed that the University is planning to implement the PeopleSoft Research module, which should improve the accuracy of accounts receivable. In the interim, Research Financial Services and General Accounting are working together to implement procedures to improve the accounts receivable billing, recording, and collection process, including creating an allowance for bad debt and an annual write-off.

COGR recommends that institutions maintain an accounts receivable system that provides for timely application of funds from invoicing sponsors and follow-up in the event of non-payment. In addition, COGR recommends that institutions have appropriate procedures in place to identify and appropriately credit payments made through electronic fund transfers as well as other methods. MAPP 05.04.04 requires that departments that extend credit to establish procedures for billing, accounting, collecting, and monitoring accounts receivable. Such procedures should include the creation of a reserve for doubtful accounts or identifying non-state appropriated funds to offset expenses.

**Recommendation (General Accounting):** University management should implement the PeopleSoft Research Module, as planned, and Research Financial Services and General Accounting should work together to 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.

**Management's Response (General Accounting):** Research Financial Services and General Accounting are working together to 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. We expect to have these procedures implemented by August 31, 2011.

## **Observation - Reconciliation of Grant Award Information**

The University utilizes two systems to record grant information, the University's financial system and RD2K. The systems are not integrated and periodic, comprehensive reconciliations are not completed to help ensure the accuracy and consistency of the information between the systems.

DOR informed us that they have the following reconciliations and processes in place:

- Report to identify differences between the budget/award amount,
- Report to identify differences in primary funding agencies,
- Report to identify differences in the grant start and end dates,
- Import Error reports to identify errors in the data feeds the University's financial system to RD2K, and
- Cost center reconciliation report to identify cost centers that are in one system but not the other.

Although DOR has certain processes in place to help ensure accuracy of the data in both systems, periodic reconciliations of the number of grants and cost center balances are not performed. Inconsistent coding of grant cost centers make it very difficult and time consuming to reconcile award information contained in both systems. Administration and Finance is working with DOR to develop procedures for coding grants in the PeopleSoft system and to develop reconciliation procedures between the systems.

## **Other Related Issues Identified**

### **Indirect Cost Recovery Allocation**

The University recovers indirect costs (IDC) on sponsored projects through rates negotiated with research sponsors. During fiscal year 2009 UH received IDC funds totaling \$12,596,980. Currently, DOR allocates IDC funds to institutional general support, core facilities, research operations, and the departments conducting research.

According to DOR, approximately 20 years ago, the Research, Academic and Finance Divisions established the IDC allocation rates for research operations and colleges/departments conducting research. In addition, DOR informed us that during fiscal year 1994, a fixed amount of \$1,238,909 began to be allocated annually to Administration and Finance to fund services provided related to research. This fixed amount allocated to Administration and Finance has not been changed even though the amount of IDC received by the institution has increased significantly. DOR also informed us that, during fiscal year 2008, approximately 8% of total IDC began to be allocated annually to Research to fund core facilities.

The IDC allocation has not been periodically assessed to help ensure that it is aligned with the University's goals and initiatives.

**Recommendation (Administration & Finance):** University management should review and modify, as appropriate, the IDC allocation model to help ensure that the allocation of IDC funds is aligned with the University's goals and initiatives.

**Management Response:** The allocation model for IDC will be reviewed as part of the annual university budget development process. This process will take effect during the Spring 2012.

## **Foreign Travel Approval - Consideration of Export Controls and Embargo Issues**

Federal export control laws, implemented through both the Department of Commerce's Export Administration Regulations (EAR) and the Department of State's International Traffic in Arms Regulations (ITAR), prohibit the unlicensed export of certain materials or information for reasons of national security or protection of trade. Only exports that the US Government considers "controlled" require licenses, and some controlled exports don't require a license. Controlled items may include computers, software and research results. There is an exclusion for fundamental research, which includes basic or applied research in science or engineering at an accredited academic or research institution where the results are either made public or intended to be made public. The Department of Treasury, through its Office of Foreign Assets Control (OFAC), may prohibit travel to embargoed countries even when exclusions to EAR and ITAR apply. Non-compliance with federal laws and regulations may result in criminal or civil penalties, loss of export privileges and negative publicity.

According to DOR, they developed the "Request to take UH Computers & Software out of the US" form in order to identify embargo issues and determine if a license is needed when travelling to foreign countries when using research funds. According to DOR, it can only require employees who work in interdisciplinary centers that report to the Vice President of Research to complete this form. University policies and procedures do not require the form to be completed by all employees when travelling to foreign countries, regardless of the funding source, in order to determine whether there are any embargo and/or export controls issues. In addition, the form does not include information regarding research results and equipment. As a result, all foreign travel requests are not reviewed for the consideration of embargo issues, export controls, and licensing requirements.

COGR recommended practices include establishing communication mechanisms regarding travel procedures and integrating the institution's compliance program processes with travel programs to identify embargo issues and licensing requirements prior to making international travel arrangements.

**Recommendation (Administration and Finance):** SAM 03.A.03, Business Travel, should be modified to require the review of all foreign travel requests, regardless of funding source, for the consideration of export controls and embargo issues to help ensure compliance with Federal laws and regulations.

**Management's Response (Administration and Finance):** We plan to amend SAM 03.A.03 to address the export control requirements by August 31, 2011.

**Recommendation (Division of Research):** DOR should modify the "Request to take UH Computers & Software out of the US" form to require the disclosure of information regarding research results and equipment to help ensure compliance with Federal laws and regulations.

**Management's Response (Division of Research):** We will modify the "Request to take UH Computers & Software out of the US" form to address the appropriate disclosures by May 31, 2011. We will provide this form to the Provost's office to use for foreign travel by those not associated with centers that report directly to DOR.

# UNIVERSITY OF HOUSTON SYSTEM

## INTERNAL AUDIT REPORT

### UNIVERSITY OF HOUSTON

### ATHLETICS DEPARTMENT ENDOWMENTS

REPORT NO. AR2011-25

**UNIVERSITY OF HOUSTON SYSTEM  
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON  
ATHLETICS DEPARTMENT, ENDOWMENTS**

**BACKGROUND:**

We performed a review of the endowments managed by the Athletics Department. 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 2010.

As of August 31, 2009, the University of Houston System endowment market value was \$414,690,258, consisting of 1,255 separate endowments. Endowment income distributed during fiscal year 2009 was \$11,747,221. The Athletics Department had 36 of these endowments with a market value of \$4,623,364 and endowment income during the fiscal year of \$210,101.

**OBJECTIVES:**

The objectives of our review were as follows:

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

**SCOPE OF WORK:**

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

**CONCLUSION:**

In our opinion, the Athletics Department is managing endowment funds effectively and efficiently and is complying with the terms of the endowment agreements. Although we noted no matters we considered to be significant engagement observations, we noted the following opportunities for improvement related to the management of endowments: agreement finalization, communication of restrictions, and expenditure compliance. 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, and management's responses.

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Don F. Guyton  
Chief Audit Executive  
April 21, 2011

## APPENDIX A

### OPPORTUNITIES FOR IMPROVEMENT

#### Endowment Agreements

University Advancement works with university personnel and donors to create endowment agreements in order to formalize the 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. Prior to FY 2009, if funds were received, the endowment was created in the financial system with a draft agreement. During the audit, we noted the following:

- There were no agreements for four endowments.
- Agreements were not finalized and signed by all parties for one endowment.

**Recommendation:** University Advancement should work with the Athletics Department to finalize the endowment agreements or create a Memorandum of Understanding, as appropriate.

**Management's Response:** University Advancement reviewed all endowments for signed agreements in response to the 2009 Audit. As a result, a multiyear action plan was created to review the documentation on file and to determine if the documentation is acceptable and clearly states donor intent. If documentation is unclear, University Advancement prepares a Memorandum of Understanding for the University's use of funds for General Counsel's review and signature. In addition, the procedure to establish endowments was revised to only create endowments in the financial system with a completed/signed agreement. SAM Policy, 03.F.02 Endowment Management reflects the new policy/procedure. University Advancement contacted the Athletics Department earlier in the year as part of this multiyear Endowment Documentation Project. University Advancement found that nine endowments contained non-standard agreements and they are currently working with the department to determine if the non-standard agreements are sufficient or if memorandum of understanding needs to be developed.

#### Endowment Restrictions – Communication and Compliance

The Athletics Department does not have a process to notify, on an annual basis, the primary signatory of the endowment income beneficiary cost center of any restrictions on expenditures. We identified two endowments that expenditures were not in compliance with the endowment restrictions. We noted the following:

- One endowment agreement contained a restriction that income was to be expended for scholarships for student-athlete trainers; however, we determined that a

scholarship was awarded to a baseball student-athlete during FY 2009 and a football student-athlete during FY 2008 and FY 2010. In addition, the Athletics Department Development Office informed us that during the early 1990's the donor requested the terms of the endowment to be changed from a awarding a scholarship to student-athlete trainer to awarding a scholarship to a baseball student-athlete. The endowment agreement has not been modified for the change in terms.

- One endowment agreement contained a restriction that income was to be expended for men's basketball scholarships; however, we determined that a scholarship was awarded to a golf student-athlete during FY 2009 and was awarded to a football and basketball student-athlete during FY 2008 and a baseball student-athlete during FY 2010.

**Recommendation:** The Athletics Department should notify, on an annual basis, endowment restrictions to all Athletic personnel responsible for endowments to help ensure compliance with the terms. In addition, the Athletics Development Office should work with University Advancement to modify the terms of the endowment that has changed.

**Management's Response:** The Associate Athletics Director of Development will provide annual written communication to the appropriate parties regarding the endowment restrictions. The Athletics Development Office will work with University Advancement to modify the terms of the endowment that has changed. We expect to complete these by July 1, 2011.

# UNIVERSITY OF HOUSTON SYSTEM

## INTERNAL AUDIT REPORT

### UNIVERSITY OF HOUSTON

### COLLEGE OF EDUCATION ENDOWMENTS

REPORT NO. AR2011-26

**UNIVERSITY OF HOUSTON SYSTEM  
INTERNAL AUDITING DEPARTMENT**

**UNIVERSITY OF HOUSTON  
COLLEGE OF EDUCATION, ENDOWMENTS**

**BACKGROUND:**

We performed a review of the endowments managed by the College of Education. 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 2010.

As of August 31, 2009, the University of Houston System endowment market value was \$414,690,258, consisting of 1,255 separate endowments. Endowment income distributed during fiscal year 2009 was \$11,747,221. The College had 57 of these endowments with a market value of \$1,777,193 and endowment income during the fiscal year of \$26,973.

**OBJECTIVES:**

The objectives of our review were as follows:

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

**SCOPE OF WORK:**

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

**CONCLUSION:**

In our opinion, the College is managing endowment funds effectively and efficiently and is complying with the terms of the endowment agreements. Although we noted no matters we considered to be significant engagement observations, we noted the following opportunities for improvement related to the management of endowments: awarding scholarships, communication of restrictions, and agreement finalization. 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, and management's responses.

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Don F. Guyton  
Chief Audit Executive  
April 20, 2011

## APPENDIX A

### OPPORTUNITIES FOR IMPROVEMENT

#### **Available Scholarship Funds**

We determined that, as of August 31, 2009, there was \$180,438 available scholarship funds in scholarship endowment cost centers. Scholarships, totaling \$24,250, were awarded from 25 of the 45 scholarship endowment cost centers. We were informed that due to a lack of applicants or qualified applicants, scholarships are not being awarded as planned and available funds in these cost centers are accumulating.

**Recommendation:** The College should discuss the issue of a lack of applicants with the Office of Academic Affairs to help identify other methods to attract qualified applicants to award these scholarships.

**Management's Response:** We are reviewing all endowments that are not being awarded on a regular basis with our scholarship committee to determine if the criteria are too restrictive and if changing some endowment terms may help attract more applicants. After this review is concluded and suggestions are made by our scholarship committee, we will meet with our donors to discuss any recommended revisions. These edits will be in place for next year. If we find that we are still struggling with getting applicants, we will then meet with Academic Affairs to discuss alternative options. We will be able to have this task completed by March 31, 2012.

#### **Communication of Endowment Restrictions**

The College did not annually communicate endowment restrictions to the primary signatory of the endowment income beneficiary cost center. However, the recently hired Development Officer for the College has met with the Scholarship Committee and communicated the restrictions related to scholarship endowments. In addition, the Development Officer plans to provide written communication to the appropriate parties regarding the restrictions related to the other endowments.

**Recommendation:** The College should notify, on an annual basis, endowment restrictions to all personnel responsible for the endowments.

**Management's Response:** The Dean has delegated authority to communicate endowment restrictions to the College Business Administrator, the Development Director, and to the Executive Associate Dean. The Development Director plans to continue to meet with the Scholarship Committee and discuss endowment restrictions on an annual basis. In addition, she plans to provide written communication to the appropriate parties regarding the restrictions related to the other endowments, to be completed by June 30, 2011.

## **Endowment Agreements**

University Advancement works with university personnel and donors to create endowment agreements in order to formalize the 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. Prior to FY 2009, if funds were received the endowment was created in the financial system with a draft agreement. During the audit, we noted one agreement that has not been finalized and signed by all parties.

**Recommendation:** University Advancement should work with the College to finalize the endowment agreement.

**Management's Response:** University Advancement reviewed all endowments for signed agreements in response to the 2009 Audit. As a result, a multiyear action plan was created to review the documentation on file and to determine if the documentation is acceptable and clearly states donor intent. If documentation is unclear, University Advancement prepares a Memorandum of Understanding for the University's use of funds for General Counsel's review and signature. In addition, the procedure to establish endowments was revised to only create endowments in the financial system with a completed/signed agreement. SAM Policy, 03.F.02 Endowment Management reflects the new policy/procedure. University Advancement contacted the College earlier in the year as part of this multiyear Endowment Documentation Project. The College is reviewing the documentation available for the endowment mentioned above and is in the process of contacting the donor to finalize the agreement. This shall be completed by August 31, 2011. In addition, University Advancement found that another endowment requires a memorandum of understanding which is currently in the signature process at UH, and shall be completed by August 31, 2011.

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

**COMMITTEE:** Audit and Compliance

**ITEM:** Institutional Compliance Status Report for the Three Months Ended March 31, 2011

**DATE PREVIOUSLY SUBMITTED:**

**SUMMARY:**

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

- Summary of Activities: risk assessment, audits, meetings, risk mitigation, and hot-line reports (page 1)
- University of Houston System: summary of January 12, 2011, meeting of Institutional Compliance Officers; UHS Mandatory Training completion rates (pages 1-2)
- University of Houston: compliance activities of University Advancement, Finance Department, Treasury, Facilities, Department of Public Safety, Law Enforcement, Research, University Information Technology, and Athletics (pages 2-4)
- University of Houston Clear Lake: summary of January 27, 2011, meeting of Institutional Compliance meeting (page 4)
- University of Houston Downtown: summary of March 9, 2011, Institutional Compliance meeting, Compliance and Ethics website/culture, Information Technology Compliance Report (pages 5-6)
- University of Houston Victoria: summary of February 6, 2011, Institutional Compliance meeting, Telecommunication User Guidelines, Finance Department, State Fire Marshall, Campus Safety & Risk Management, School of Nursing, SORM, UHV drug and alcohol prevention program (pages 6-7)


**SUPPORTING**

**DOCUMENTATION:** Institutional Compliance Status Report

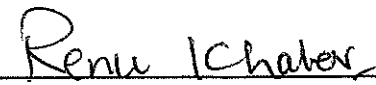
**FISCAL NOTE:**

**RECOMMENDATION/  
ACTION REQUESTED:** Information

**COMPONENT:** University of Houston System

  
\_\_\_\_\_  
**CHIEF AUDIT EXECUTIVE** Don Guyton

4/29/11  
\_\_\_\_\_  
**DATE**

  
\_\_\_\_\_  
**CHANCELLOR** Renu Khator

5/6/11  
\_\_\_\_\_  
**DATE**

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

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

<u>Activity</u>	<u>UH/UHS</u>	<u>UHCL</u>	<u>UHD</u>	<u>UHV</u>
Risk Assessments Completed	0	3	0	0
Risk Assessments Updated	5	0	0	0
Compliance Audits Conducted	30	10	10	1
Compliance Committee Meetings Held	1	1	1	1
Risk Mitigation Implemented:				
Specific Control Activities (pol. & proc.)	14	0	3	17
New Training Program / Activities	65	0	0	18
Hot-line Reports:				
Number Received during last 3 months	8	0	0	2 <sup>(1)</sup>
Reports Resolved during last 3 months	10	0	1	2
Unresolved Reports as of March 31, 2011	5	0	1	1

*(1) Includes 1 non-hotline report*

**UHS:**

- A system-wide meeting of the Institutional Compliance officers was held on January 12, 2011, to discuss institutional compliance activities. Included on the meeting agenda were the following:
  - Open points from previous meeting
  - Description of reports to be presented to the Audit and Compliance Committee on February 16, 2011
  - Cooperative Problem Solving – Sharing of Ideas (discussion by all compliance officers of major concerns / accomplishments)
  - Presentation by Mike Glisson – FY 2012 Mandatory Training and Cost Center Verification Training
  - Presentation by Sandy Coltharp – Mandatory Training
  - Presentation by Rosemary Grimmet – Update on Research Hot Topics

- The following table reflects UHS Mandatory Training completion rates for FY 2010 and FY2011:

University	FY 10	FY 11
UH Clear Lake Total	93.43%	98.27%
UH Downtown Total	90.47%	97.05%
UH Main and System Total	93.93%	95.38%
UH Victoria Total	97.41%	100%
Total (All Campuses)	92.85%	96.03%

- Percentages reflect number of individuals completing by the published deadline
- Percentages reflect completion rates combined for the primary trainings and External Consulting

#### UH:

- University Advancement - continuing to refine its payment card compliance processes.
- Finance: The UH Controller issued revised cost center verification procedures to make the verification and review process less time consuming and more efficient. These procedures were reviewed and approved by Internal Audit and Academic Affairs. Cost center verifications are an important internal control, and the new procedures should allow departments to complete verifications in a timely manner without spending as much time documenting the process and review.
- Treasury - Treasury sent an email on January 26, 2011, to 89 credit card merchant accounts asking them to recertify their compliance with Payment Card Industry standards for credit card acceptance. The due date is March 31, 2011. As of this date, 54 merchant accounts have recertified their compliance.
- Facilities – All staff in Facilities Planning and Construction who required asbestos awareness training received such training by the University's asbestos coordinator.
- Public Safety  
*Environmental Health and Safety*  
Training  
 General Laboratory Safety (3 Times)  
 Hazard Communication (4 Times)  
 Biological Safety (2 Times)  
 Bloodborne Pathogens (4 Times)  
 N95 Respirator Fit-test (2 Times)  
 Radioactive Material Safety (2 Times)  
 X-ray Safety (2 Times)  
 Laser Safety (2 Times)  
 Asbestos Awareness (2 Times)  
 Hydrofluoric Acid Training  
 Chemical Standard Operating Procedures (24 Times)

Online Asbestos Awareness  
Online Annual X-ray Safety Refresher  
Online Annual Radiation Safety Refresher  
Online Annual Laser Safety Refresher  
Online Bloodborne Pathogens Refresher  
Online Indoor Air Quality and Mold  
Online Environmental Compliance  
Online Hazardous Waste

New Programs/Activities

New Hire Orientation – Added Safety Training  
Started Shop Safety  
Developed new instructor Asbestos Awareness Training  
Developed new Asbestos Containing Material (ACM) Guidance Documents

■ Law Enforcement

- UHDPS submitted its racial profiling report to the Texas Commission on Law Enforcement Officers Standards and Education. This report is mandated by legislation promulgated in the Texas Code of Criminal Procedures.

■ Research

- Completed the semi-annual inspections for animal care facilities at UH.
- Completed the semi-annual program review of the animal care program at UH.
- Conducted training classes pertaining to animal care.
  - Introduction to Laboratory Animal Science
  - Practical Research Methodology – Rodents
- Conducted three (3) classroom presentations pertaining to human subject research; An Introduction to Human Subject Research.
- Conducted Research Administrator Certification Program (RACP) classes entitled, “Managing Project Costs/Sub-recipient Monitoring” and “Administrative Issues and Financial Reporting”.
- Facilitated a webinar entitled, “IACUC Responsibilities Beyond Protocol Review and Facilities Inspection”.

■ Information Technology

- *Sensitive Data Protection* –
  - Identity Finder Deployment – Work has continued with campus departments on deployment and remediation of sensitive data.
- *Texas DIR IRDR Corrective Action Plan* – As a component of the 2009 Information Resources Deployment Review, a corrective action was identified related to the TAC 206.73c provision requiring implementation of appropriate privacy and security safeguards on university websites requiring user identification. UIT completed all actions related to this requirement and is in full compliance with this TAC provision.
- *College/Division Technology Reviews* – Comprehensive technology reviews, which include security risk assessments, are in progress for HRM and RLH and are being identified for other colleges and divisions.

- *Copyright infringement notices (DMCA)* –UIT Security has implemented Red Lambda Integrity software, and is working with the vendor and campus staff to optimize the configuration. The software is designed to address the escalating infringement notices the campus has been receiving throughout the past year.
- *Red Flag Rule Notifications* - Employees and students receive an automated email notification when they change their email address, physical address, W-4 withholding, or direct deposit information. Between January 1 and March 31, 2011, University of Houston IT Security received five (5) inquiries about automated email messages related to email and physical address changes. None of the inquiries were identified to be security incidents.

■ Athletics

- Evaluated and selected a software vendor to assist in monitoring and administering recruiting and compliance activities. Currently working with University Purchasing to finalize a contract. Anticipated implementation of software to be completed no later than June 30.
- Engaging in Rules Education presentations with on-campus groups (i.e., Staff Council, Faculty Senate, Chancellor's Cabinet).
- Working with HR to develop an online educational training program of NCAA rules for faculty and staff as a part of the university's new hire and annual training program.
- Currently developing an athletic department online education schedule utilizing Blackboard.
- Reported two secondary violations of NCAA rules (six secondary violations have been reported since July 2010). In those instances involving student-athlete reinstatement requests, the student-athletes were reinstated. All cases have been fully adjudicated.
- Three waivers were processed and approved with the NCAA or C-USA Office. Two waivers currently pending with the NCAA or C-USA Office.

**UHCL:**

- A University of Houston Clear Lake Compliance Committee meeting was held on Thursday, January 27, 2011 at 2:00 pm. Action items included:
  - The minutes of the December 15, 2010 were read and approved without corrections.
  - Based on goals for FY 2011, the committee presentations on the following Risk Assessment assignments for FY 2011 were made:
    - a. Laboratory audits – by Lisa Coen – divided into 2 areas:
      - i. Training, PPE and Labeling with 3 items and 88 findings
      - ii. Facilities deficiencies with 3 items and 50 findings
    - b. Property Handling – by Usha Mathews – reported in 1 area with 4 identified risk items
    - c. Administration and Finance audit items will be reported on next meeting
  - The UHD mandatory Employee Compliance Guide Acknowledgement form was discussed and will be reviewed at the next meeting

## UHD:

- The quarterly UHD Compliance Committee Meeting was held on March 9, 2010. Items on the agenda included the following:
  - Reviewed actual performance versus FY11 goals reported to the BOR
  - Reviewed progress-to-date on Risk Identification Valuation Summary
  - Subject Matter Experts presented reports on identified institutional risk areas
  - Open discussion
- Compliance Committee members promoted Compliance and Ethics website/culture:
  - CFO sent an e-mail introducing website to UHD management and supervisors, who were encouraged to familiarize themselves with the website and make an effort to raise awareness of the UHD Compliance program with their direct reports.
  - Faculty Senate President forwarded Financial Aid compliance reports to the UHD SACS committee working on the Fifth-Year Review, as evidence of institutional commitment to maintaining 'the integrity of our financial aid practices.' Also updated Executive Council on the Institutional Compliance Program.
  - Division Business Administrator for Academic Affairs and Provost forwarded NCURA article (Preventing Fraud in Sponsored Research) to College Business Administrators and UHD Management. Key points for research administrators:
    - Research administrators are the first line of defense for identifying and preventing fraud in the sponsored research arena
    - Key warning signs that point to the potential of fraud
    - Key actions to protect the institution and mitigate the risk of fraud
  - CFO/Compliance Officer hosted the Psychology of Fraud: Why Good People Do Bad Things and What We Can Do About It" webinar sponsored by the SCCE (Society for Corporate Compliance and Ethics). Webinar was attended by 50 UHD employees. As follow-up to the webinar, all attendees and people who signed up for the webinar were provided with links to the:
    - [Compliance and Ethics website](#)
    - [Compliance and MySafeCampus](#) video
    - [Why Do We Sign an Annual Acknowledgement Form?](#) video
    - [Employee Compliance and Ethics Guide](#)
    - [Departmental Self Assessment Tools](#).
- Information Technology Compliance Report for BOR – January through March 2011
  - TAC 202 Security and Compliance Activities
    - UHD IT continues to diligently monitor university systems and electronic assets for security risks and events. A monthly security report is prepared and submitted, as required by TAC 202, to the Department of Information Resources
  - Audit Report 2009-20 Activities
    - Action Item 3b, Work with university leadership to update UHD's Business Continuity Plan to include all business functions of the University.

### STATUS

UHD's University-wide business continuity plans were signed by UHD President, Dr. William Flores, on April 15, 2010, but a subsequent review

by UH System Audit resulted in a request for UHD to prepare a Business Impact Analysis, Security Risk Assessment, and Recovery Strategy, as well as develop an implementation, testing, and maintenance program at the university level. The estimated completion date for these additional activities related to UHD's Business Continuity Plan is August 31, 2011. During the 1st fiscal quarter, the Vice President for Administration communicated with and provided materials to the Executive Council for review and comment, and proposed the approach for conducting the update for FY11. The Executive Council's review of materials provided at the end of the 1<sup>st</sup> fiscal quarter continued during the 2<sup>nd</sup> fiscal quarter with the kickoff for the BCP Update Project planned during the 3<sup>rd</sup> fiscal quarter.

- Other
  - Federal Financial Aid Audit:
    - Information Technology (IT) assisted the Office of Scholarships and Financial Aid Office in responding to UHS Internal Audit (IA) questions stemming from an SAO 'Federal Financial Aid System Audit' of UHD's financial aid software (PowerFaid) and business practices. The IT Division provided UHS IA evidence that the new Banner Financial Aid system has appropriate security functionality, applying a timeout feature related to user inactivity and ensuring appropriate separation of duties.

#### UHV:

- Notable activities for this quarter included:
  - The Quarterly campus Compliance Committee Meeting was held February 6, 2011. Minutes of the meeting can be seen online at <http://www.uhv.edu/Compliance/meetings.aspx>
  - Policy A-16, Telecommunication User Guidelines/Responsibilities, was updated 2/25/11.
  - Enrollment Management staff met with Dr. Brent Gage, consultant for the American Association of College Registrars and Admissions, for an assessment of best practices regarding policies, procedures and organizational structure within that division.
  - The Finance Department developed a procedure to track and ensure timely completion of internally submitted/approved reconciliations and verifications. Finance suggested similar tracking by departments that had action items resulting from the recent audit.
  - The State Fire Marshal's Office (SFMO) conducted a comprehensive on-site fire safety inspection including Jaguar Hall residential housing on March 8, 2011. Deputy State Fire Marshal Andrea Adamson conducted the inspection with assistance from Joe Tremont, Assistant Fire Marshal, UHDDS Fire Marshal Office. A final report is forthcoming.
  - The Campus Safety & Risk Office completed the requirements of the Tier II Chemical Reporting Program, a mandate of the Texas Department of State Health Services, in February. The Tier II Report is an annual hazardous chemical inventory report due March 1 which provides detailed information on chemicals which meet or

exceed specified reporting thresholds at any time during a calendar year. No inventoried chemicals met or exceeded reporting threshold quantities.

- A productive Campus Safety and Risk Management Meeting was held on March 2 and attended by 14 employees representing a cross section of management and facilities.
- As a follow-up to the Property Risk Assessment conducted by Stephen Greeson, HSB Professional Loss Control, at SORM's request, Campus Safety and Risk management submitted a Corrective Action Plan which included specific management responses, assignments of responsibility and timelines for completion. The plan was accepted by SORM who also forwarded it to the property insurer.
- Due to low 2010 NCLEX-RN (National Council Licensure Examination) pass rates, the School of Nursing has been implementing corrective changes. The Board of Nursing Staff recommendation was to change the approval status of the UHV Baccalaureate Degree Nursing Education Program in Sugar Land from Initial to Initial with Warning and authorized the board staff to conduct a survey visit. As a new startup program, the low pass rate has been magnified by the smaller base of total program participants and graduates from the new program. (Recent graduates were 17)
- As a result of the State Office of Risk Management's (SORM) on-site consulting visit in December, a Corrective Action Plan and the estimated date of completion for the two (2) recommendations for improving and maintaining the effectiveness of our risk management program was submitted and accepted by Joe Deering, SORM Risk Management Specialist.
- The federally mandated biennial review for the two-year period ending December 31, 2010 for UHV's drug and alcohol prevention program was completed and presented to the President's Cabinet for review January 26<sup>th</sup>. Institutions are required to certify that they have adopted and implemented programming to prevent the unlawful possession, use, or distribution of illicit drugs and alcohol by students and employees.
- Monthly Incident Reports continue to be posted online. Incidents for January, February, March 2011 can be seen at  
[http://www.uhv.edu/business/safety/manual/Incident\\_Log/Incidlog.aspx](http://www.uhv.edu/business/safety/manual/Incident_Log/Incidlog.aspx)

This summary is taken from a more comprehensive campus report of compliance activities. To see the full report, available on-line after April 15<sup>th</sup>, go to:  
<http://www.uhv.edu/Compliance/manual/reports.aspx> , (Scroll to *UHV Campus Reports*, then click on *Quarterly Report, Period Ending March 31, 2011.*)

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Don F. Guyton  
System-wide Compliance Officer  
April 29, 2011

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

**COMMITTEE:** Audit and Compliance

**ITEM:** External Audit Report – UHS Public Broadcasting Basic Financial Statements and Independent Auditor's Report for FY2010 and FY2009

**DATE PREVIOUSLY SUBMITTED:**

**SUMMARY:**

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

The Public Broadcasting Act of 1967, as amended, requires each public telecommunications entity that receives funds from the Corporation for Public Broadcasting to undergo an audit by independent certified public accountants on a biennium basis. Furthermore, CPB requires submission of its online Annual Financial Report with attached financial statements for each station.

Per "CPB Application of Principles of Accounting and Financial Reporting To Public Broadcasting Entities", audited statements must include current year and prior year comparatives; additionally, required are stand-alone financial statements submitted to CPB, even if that broadcasting entity reports to a parent organization such as UH. Also, UH requires the submission of an annual audited statement for the Association for Community Broadcasting. Due to the above requirements and the presentation of KUHF, KUHT and ACB as one consolidated audited financial statement, it is necessary for the independent audit firm to perform audit procedures on all three entities on an annual basis.

**SUPPORTING**

**DOCUMENTATION:** External Audit Reports

**FISCAL NOTE:**

**RECOMMENDATION/  
ACTION REQUESTED:** Information

**COMPONENT:** University of Houston System

\_\_\_\_\_  
**CHIEF AUDIT EXECUTIVE**

Don Guyton

\_\_\_\_\_  
**DATE**

\_\_\_\_\_  
**CHANCELLOR**

Renu Khator  
Renu Khator

\_\_\_\_\_  
**DATE**



**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)  
Basic Financial Statements  
August 31, 2010 and 2009  
(With Independent Auditors' Report Thereon)

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)

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KPMG LLP  
811 Main Street  
Houston, TX 77002

## **Independent Auditors' Report**

The Board of Regents  
University of Houston System:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Public Broadcasting Division, a division of the University of Houston System, as of and for the years ended August 31, 2010 and 2009, as listed in the accompanying table of contents. These financial statements are the responsibility of the Public Broadcasting Division's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

As discussed in note 1, the financial statements of the Public Broadcasting Division are intended to present the financial position, changes in financial position, and cash flows of only that portion of the business-type activities and the aggregate discretely presented component units of the University of Houston System that is attributable to the transactions of the Public Broadcasting Division. They do not purport to, and do not, present fairly the financial position of the University of Houston System as of August 31, 2010 and 2009, the changes in its financial position, or its cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component unit of the Public Broadcasting Division as of August 31, 2010 and 2009, and the respective changes in financial position and, when applicable, cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

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

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

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Public Broadcasting Division's financial statements. The supplementary information included in Schedules 1, 2, 3, 4, and 5 as listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

February 22, 2011

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2010

**Introduction**

The following Management's Discussion and Analysis (MD&A) provides an overview of the activities and the financial position of the Public Broadcasting Division of the University of Houston (UH) System (the System) (the Stations) for the fiscal years ended August 31, 2010 and 2009. This MD&A offers a summary of significant current year activities of the Stations, resulting changes in net assets, and currently known economic conditions and facts. This analysis should be read in conjunction with the Stations' financial statements and the notes to the financial statements. Responsibility of the financial statements, related note disclosures, and MD&A rests with the Stations' management.

The Stations, licensed to the Board of Regents of the System, are located at the System's Central campus, and are a division of the UH. The Association for Community Broadcasting (ACB) is a legally separate and tax-exempt entity meeting all of the following criteria to be discretely presented as a component unit. These criteria are:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

**Overview of the Financial Statements**

The Stations herewith presents its financial statements for fiscal years ended August 31, 2010 and 2009. The financial statements have been prepared in accordance with the standards of the Governmental Accounting Standards Board, which establishes generally accepted accounting principles for state and local governments. The three primary financial statements presented are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The information contained in the financial statements of the Stations is incorporated within the System's Annual Financial Report.

**Financial Statements**

The financial statements consist of the following:

The *Statement of Net Assets* reflects the Stations' assets and liabilities using the economic resources measurement focus and accrual basis of accounting, and represents the financial position as of the conclusion of the fiscal year. Net assets are equal to assets minus liabilities. Unrestricted net assets are available to the Stations for any lawful purpose. Unrestricted net assets often have constraints imposed by management, but can be removed or modified. Invested in capital assets represents the original cost of capital assets, net of accumulated depreciation. Restricted net assets represent net assets that can be utilized only in accordance with third-party imposed restrictions.

The *Statement of Revenues, Expenses, and Changes in Net Assets* identifies operating revenues received by the Stations. Additionally, the operating expenses incurred by the Stations during the fiscal year are displayed. Any revenues or expenses resulting from other than operations would also be displayed on this statement.

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2010

The *Statement of Cash Flows* reflects the inflows and outflows of cash and cash equivalents and shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the Statement of Net Assets, described above. In addition, this statement reconciles cash flows from operating activities to operating income (loss) on the Statement of Revenues, Expenses, and Changes in Net Assets described above.

This MD&A uses the prior fiscal year as a reference point in illustrating issues and trends for determining whether the institution's financial health may have improved or deteriorated.

**Condensed Financial Information**

	<b>Statement of Net Assets Information</b>		
	<u><b>2010</b></u>	<u><b>2009</b></u>	<u><b>2008</b></u>
Assets:			
Current assets	\$ 1,835,408	2,730,546	3,150,554
Capital assets, net	9,456,698	10,281,793	10,066,617
Other noncurrent assets	185,971	213,882	241,688
Total assets	<u>\$ 11,478,077</u>	<u>13,226,221</u>	<u>13,458,859</u>
Liabilities:			
Current liabilities	\$ 4,587,060	4,509,610	3,869,606
Total liabilities	<u>4,587,060</u>	<u>4,509,610</u>	<u>3,869,606</u>
Net assets:			
Invested in capital assets, net of related debt	9,456,698	10,281,793	10,066,617
Restricted for endowment funds	42,323	39,341	47,256
Unrestricted	(2,608,004)	(1,604,523)	(524,620)
Total net assets	<u>6,891,017</u>	<u>8,716,611</u>	<u>9,589,253</u>
Total liabilities and net assets	<u>\$ 11,478,077</u>	<u>13,226,221</u>	<u>13,458,859</u>

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2010

**Statements of Revenues, Expenses and Changes in Net Assets Information**

	Year ended August 31		
	2010	2009	2008
Operating revenues	\$ 20,548,612	20,745,379	19,895,553
Operating expenses	22,792,837	21,559,236	20,924,957
Operating loss	(2,244,225)	(813,857)	(1,029,404)
Nonoperating income (expenses):			
KUHT loss funding	393,929	—	—
Interest	—	6,787	65,576
Income allocation from endowment fund	24,702	(65,572)	70,214
Change in net assets	(1,825,594)	(872,642)	(893,614)
Net assets, beginning of year	8,716,611	9,589,253	10,482,867
Net assets, end of year	\$ 6,891,017	8,716,611	9,589,253

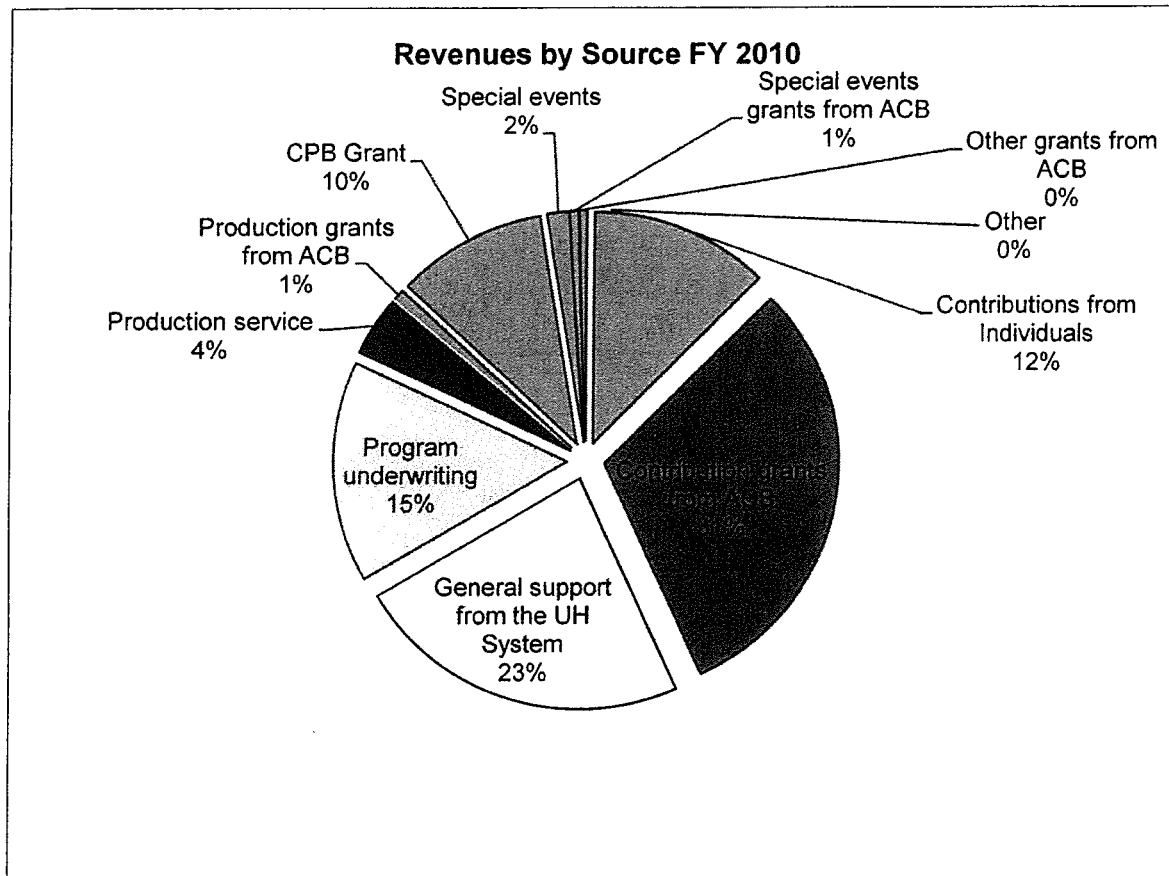
Operating revenues include sources that are primarily used to provide services to the Stations' viewers and listeners. The following schedule presents a summary and comparison of revenues for the fiscal years ended August 31, 2010, 2009 and 2008.

Revenues by source	FY 2010		FY 2009		FY 2008		2010 – 2009 Increase/decrease		2009 – 2008 Increase/decrease	
	(A) Amount	Percentage of total	(B) Amount	Percentage of total	(C) Amount	Percentage of total	(A-B) Amount	Percentage of total	(B-C) Amount	Percentage of total
Operating revenues:										
Contributions	\$ 2,548,219	12%	\$ 2,825,420	14%	\$ 3,091,816	15%	\$ (277,201)	141%	\$ (266,396)	(31)%
Contributions grants from ACB	6,321,296	32	6,518,509	31	6,208,834	31	(197,213)	100	309,675	36
General support from the UH System	4,804,988	23	4,230,552	20	4,087,323	21	574,436	(292)	143,229	17
Program underwriting	3,179,466	15	3,579,452	17	3,513,601	18	(399,986)	203	65,851	8
Production service	852,277	4	279,309	1	317,515	2	572,968	(291)	(38,206)	(4)
Production grants from ACB	167,195	1	388,260	2	238,298	1	(221,065)	112	149,962	18
Corporation for Public Broadcasting grants (CPB)	2,125,322	10	2,112,537	10	1,876,778	9	12,785	(6)	235,759	28
Special events	319,556	2	172,638	1	171,474	1	146,918	(75)	1,164	—
Special events grants from ACB	116,699	1	107,399	1	239,642	1	9,300	(5)	(132,243)	(16)
Other grants from ACB	14,576	—	1,233	—	—	—	13,343	(7)	1,233	—
Other	99,018	—	530,070	3	150,272	1	(431,052)	220	379,798	44
Total operating revenues	\$ 20,548,612	100%	\$ 20,745,379	100%	\$ 19,895,553	100%	\$ (196,767)	100%	\$ 849,826	100%

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2010



**PUBLIC BROADCASTING**  
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August 31, 2010

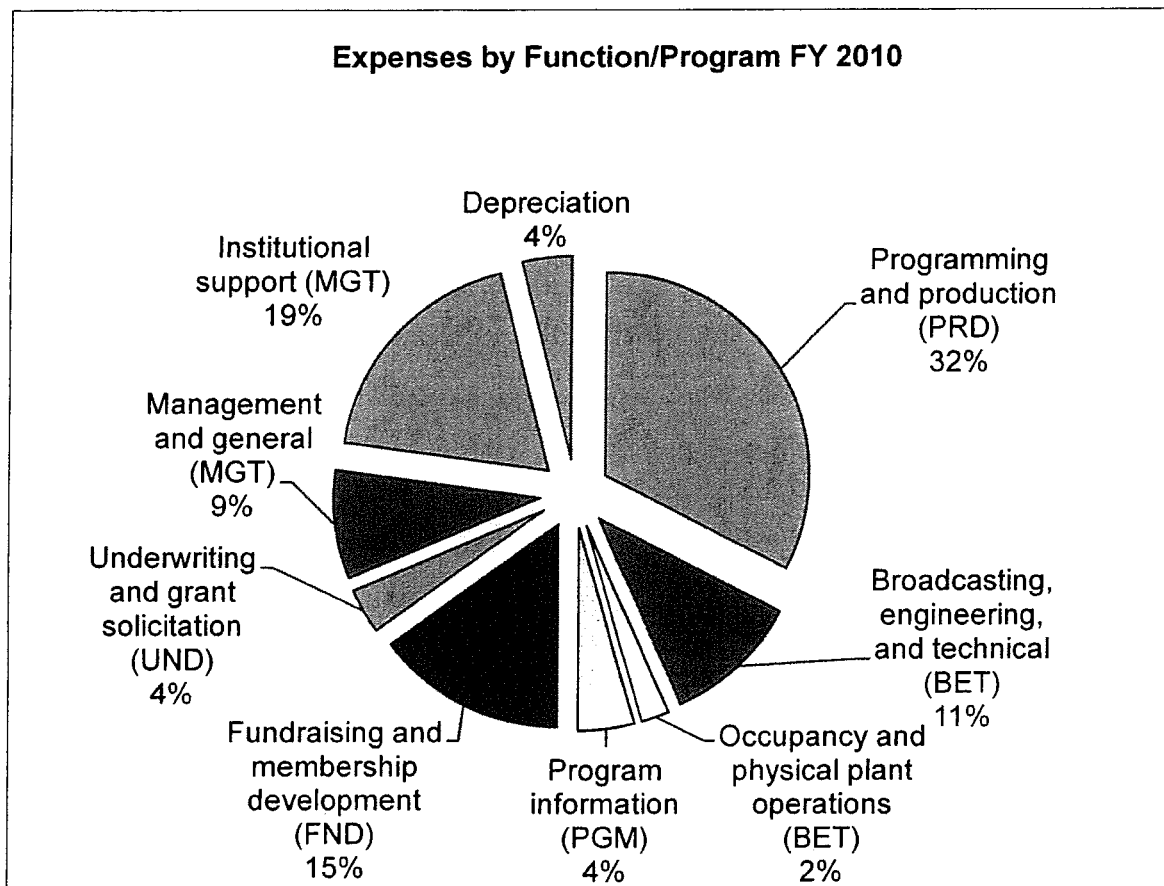
Operating expenses are the costs necessary to provide those services and to fulfill the mission of the Stations. Alternatively, operating expenses categorized using the natural classification method is disclosed in the Schedule of Functional Expenses. The following schedule presents a summary and comparison of expenses for the fiscal years ended August 31, 2010, 2009 and 2008:

Expenses by function	FY 2010		FY 2009		FY 2008		2010 - 2009		2009 - 2008	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
Operating expense:										
Programming and production (PRD)	\$ 7,413,545	32%	\$ 6,797,988	32%	\$ 6,461,881	30%	\$ 615,557	50%	\$ 336,107	52%
Broadcasting, engineering, and technical (BET)	2,452,698	11	2,578,088	12	2,521,257	12	(125,390)	(10)	56,831	9
Occupancy and physical plant operations (BET)	508,511	2	542,346	3	594,463	3	(33,835)	(3)	(52,117)	(8)
Program information (PGM)	1,006,564	4	1,062,373	5	1,043,298	5	(55,809)	(5)	19,075	3
Fundraising and membership development (FND)	3,397,343	15	3,670,517	17	4,087,383	20	(273,174)	(22)	(416,866)	(66)
Underwriting and grant solicitation (UND)	817,518	4	526,565	2	358,311	2	290,953	24	168,254	27
Management and general (MGT)	1,972,238	9	1,798,653	8	1,534,846	7	173,585	14	263,807	42
Institutional support (MGT)	4,296,477	19	3,688,206	17	3,492,860	17	608,271	49	195,346	31
Depreciation	927,943	4	894,500	4	830,658	4	33,443	3	63,842	10
Total operating revenues	\$ 22,792,837	100%	\$ 21,559,236	100%	\$ 20,924,957	100%	\$ 1,233,601	100%	\$ 634,279	100%

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2010



**Financial Highlights and Analysis**

***Assets and Liabilities – Fiscal Year 2010 Compared to Fiscal Year 2009***

The increase in current liabilities is \$77,450. This increase reflected in Due to UH System is the result of the accumulation in net losses over several fiscal years.

The decrease in current assets is due to the concerted effort to reduce the Association for Community Broadcasting funds due to KUHT. Also, the downturn in corporate funding to KUHF caused a cash deficit. Currently, corporate support is strengthening, which should directly improve the cash balances.

On October 12, 2010, the University entered into an Asset Purchase Agreement with Rice University whereby the University would purchase the FCC license, FM frequency, and broadcast tower used by the student-run Rice radio station, KTRU-FM, as well as certain real property on which the broadcast tower and other transmission equipment is located. The agreed purchase price is \$9,932,000 cash with an additional \$432,000 in noncash

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2010

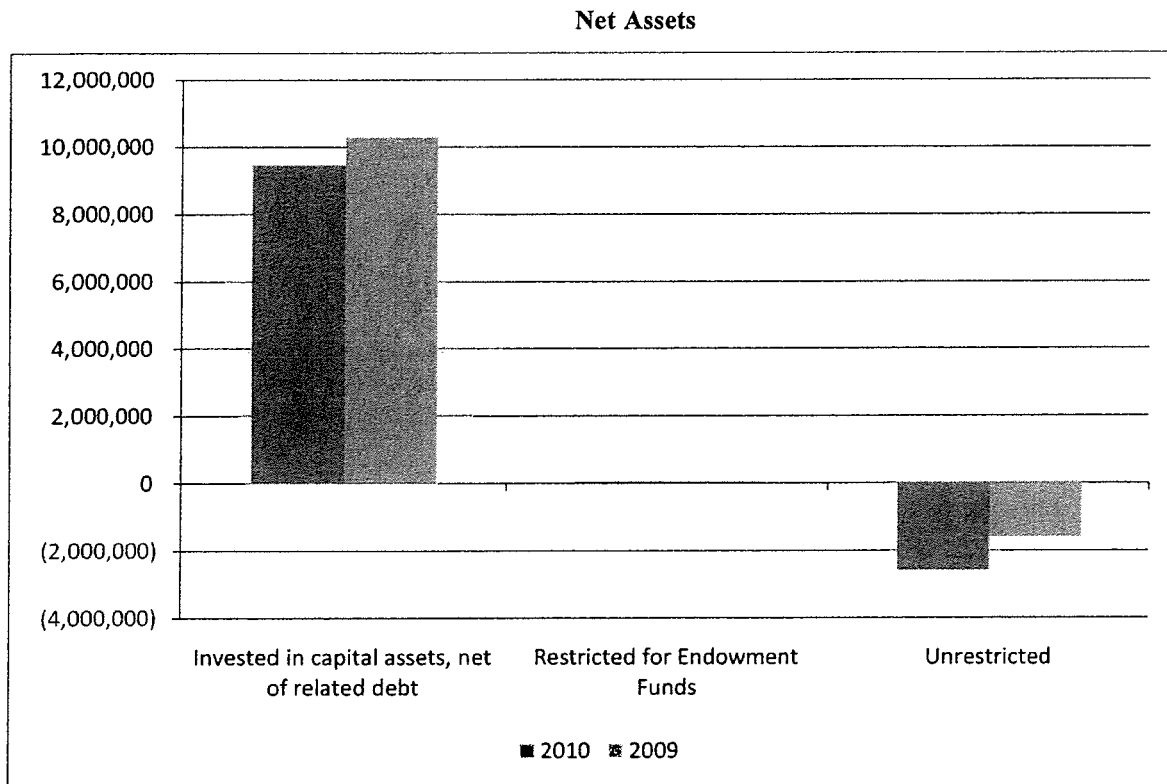
consideration. Federal Communications Commission consent for the sale is pending. The transaction will enable the University to expand its outreach to the Greater Houston community.

***Assets and Liabilities – Fiscal year 2009 Compared to Fiscal Year 2008***

The increase in current liabilities of \$640,004 was due to the acquisition of capital assets required for technological changes occurring in HD radio and digital television. This investment will allow the Stations to meet federal mandates as well as offer enhancements to the on-air activities. The increase in Due to UH System is the result of the accumulation in net losses over the past several fiscal years.

Average number of days to collect underwriting receivables increased causing an increase in the ending accounts receivables balances. Overall, current assets decreased due to the slowing economy which was an after-effect of Hurricane Ike and the U.S. economic recession.

The following graph illustrates the comparative change in net assets in the different categories for fiscal years 2010 and 2009:



**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)  
Management's Discussion and Analysis  
August 31, 2010

***Operating Revenues – Fiscal Year 2010 Compared to Fiscal Year 2009***

- Individual contributions decreased due to the challenge of finding successful on-air pledge programming for KUHT.
- Contribution grants from ACB reflect payments directly disbursed by Association for Community Broadcasting for station activities.
- Corporate underwriting support has declined due to the economic downturn. Radio had the greatest loss due to problems finding talented sales persons.
- General support from the System is derived by a formula provided by the Corporation for Public Broadcasting. An integral part of the formula is the Stations' and the University's operating expenses. Since overall University expenses increased from FY2009 to FY2010, so did the general support.
- Production activities depend on available funding. Due to the economic downturn, available funding decreased; therefore, production and production grants declined.
- The increase in grants from the Corporation for Public Broadcasting reflects additional federal funds received for capital equipment and stimulus grants.
- Special events increased due to additional events for KUHF's 60th anniversary celebration.

***Operating Revenues – Fiscal Year 2009 Compared to Fiscal Year 2008***

- Overall contributions increased slightly both in areas of individual annual gifts and major gifts. The individual contributions increased as the result of new direct mail marketing efforts while major gifts increased as gifts were sought as matching funds for federal grants for television digital infrastructure.
- General support from the System is derived by a formula provided by the Corporation for Public Broadcasting. An integral part of the formula is the Stations' operating expense. Since overall expenses increased from FY2008 to FY2009, so did the general support.
- Production grants grew due to increased television production.
- The increase in grants from the Corporation for Public Broadcasting reflects additional federal funds allocated for television digital conversion and upgrades
- Other revenues were increased by the receipt of equipment grants from the Department of Commerce and local foundations.

***Operating Expenses – Fiscal Year 2010 Compared to Fiscal Year 2009***

- Programming and production expenses increased due to hiring of additional staffing for local radio news production.
- Underwriting salaries and fringe benefits increased to cover the addition of a sales manager for KUHF and an additional sales person.
- Management and general expenses increased due to the following:
  - Legal fees increased in preparation for KUHF's purchase of a second radio station.

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)  
Management's Discussion and Analysis  
August 31, 2010

- Increased audit fees resulted in higher professional services expense.
- Institutional support has increased due to an increase in overall expenses.

***Operating Expenses – Fiscal Year 2009 Compared to Fiscal Year 2008***

- Programming and production expenses increased due to hiring of additional staffing for local radio news production.
- Fundraising expenses decreased because both KUHF and KUHT membership departments sought new vendors for direct mail activities.
- Underwriting salaries and fringe benefits increased to cover the addition of a sales manager for KUHF and an additional sales person.
- Management and general expenses increased due to the following:
  - Salaries and wages increased due to the hire of a 50% full-time equivalent administrative assistant and a comptroller position
  - Increased audit fees resulted in higher professional services expense.
- Institutional support from the System has increased due to an increase in overall expenses.

**Capital Assets and Debt Administration**

As of the end of the 2010 fiscal year, the Stations had \$9,456,698 of capital assets, net of accumulated depreciation. These assets included buildings and building improvements, furniture, equipment, and construction in progress related to the remodeling of parts of the building to accommodate staff increases.

Title to these assets resides with the System, which allocates custody of the assets to the Stations for its operational needs. Accountability for capital assets is consistent with policies established by the State of Texas. Assets are depreciated over their recommended useful lives. The Stations capitalize assets when the acquisition cost exceeds certain threshold values. Funds for the acquisition of capital assets are provided from the Stations' operating revenues.

The Stations do not separately issue long-term debt. The Stations are not currently engaged in any long-term financing transactions. The operating budgets for the Stations are currently structured such that annual financial obligations are satisfied through operating revenues and nonoperating revenues that are received during each current fiscal year.

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)

Management's Discussion and Analysis

August 31, 2010

***Budgetary Revenues***

The following table summarizes the Stations' original budget, final budget, actual results, and variance for revenues:

	<b>Budgeted amounts</b>			<b>Variance with final budget favorable (unfavorable)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
Contributions	\$ 900,000	900,000	2,548,219	1,648,219
Contribution grants from ACB	6,700,000	6,700,000	6,321,296	(378,704)
General support from the UH System	4,400,000	4,400,000	4,804,988	404,988
Program underwriting	4,190,000	4,190,000	3,179,466	(1,010,534)
Production service	495,000	495,000	852,277	357,277
Production grants from ACB	150,000	150,000	167,195	17,195
Corporation for Public Broadcasting grants (CPB)	1,823,000	1,823,000	2,125,322	302,322
Other grants	500,000	500,000	47,208	(452,792)
Royalties	15,000	15,000	10,514	(4,486)
Special events	707,000	707,000	319,556	(387,444)
Special events grants from ACB	110,000	110,000	116,699	6,699
Other grants from ACB	10,000	10,000	14,576	4,576
Other	94,000	94,000	41,296	(52,704)
	<u>\$ 20,094,000</u>	<u>20,094,000</u>	<u>20,548,612</u>	<u>454,612</u>

The actual versus budgeted revenue variances were due to the following:

- Contributions – slightly favorable as a result of the direct mail programs strength
- Contribution grants from ACB reflect payments directly disbursed by Association for Community Broadcasting for station activities
- General support from UH System is calculated after UH closes its fiscal year. The calculation is based upon actual expenses of both the Stations and the University themselves; therefore the Stations do not budget general support. The budgeted revenue reflects the offsetting in-kind income of the expenses recognized.
- Program underwriting – Downturn in corporate support was due to the general economic downturn.
- Production service – The increase in production service revenue includes transactions with the ACB not included in the budgets of \$698,989. Excluding this amount leaves an unfavorable variance of \$341,712 resulting from difficulty finding funds, which hampered productions starts.
- Corporation for Public Broadcasting grants (CPB) – Awarded additional grants for digital infrastructure
- Other grants – Awarded additional grants for infrastructure and KUHF local production and economy stimulus

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- Special events – The budget for special events was increased for year 2010 due to the scheduled events for KUHF's 60th Anniversary celebration. The Garrison Keillor event sponsorships and ticket sales should have been received in 2010 but due to delayed contract negotiations the revenues fell to the next fiscal year.

**Expenditures**

The following table summarizes the Stations' original budget, final budget, actual results, and variance for expenditures:

	<b>Budgeted amounts</b>		<b>Actual</b>	<b>Variance with final budget favorable (unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
Programming and production (PRD)	\$ 7,306,208	7,306,208	7,413,545	(107,337)
Broadcasting, engineering, and technical (BET)	2,589,523	2,589,523	2,452,698	136,825
Occupancy and physical plant operations (BET)	—	—	508,511	(508,511)
Program information (PGM)	1,109,664	1,109,664	1,006,564	103,100
Fundraising and membership development (FND)	3,453,537	3,453,537	3,397,343	56,194
Underwriting and grant solicitation (UND)	891,404	891,404	817,518	73,886
Management and general (MGT)	1,706,994	1,706,994	1,972,238	(265,244)
Institutional support (MGT)	—	—	4,296,477	(4,296,477)
Depreciation	927,943	927,943	927,943	—
	<u>\$ 17,985,273</u>	<u>17,985,273</u>	<u>22,792,837</u>	<u>(4,807,564)</u>

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The actual versus budgeted expenditure variances were due to the following:

- Programming and production – Unfavorable due to hiring of additional staffing for local radio news production.
- Broadcasting, engineering and technical – New contract for utilities was negotiated after budget was set. The negotiated rates were less than previous years, resulting in lower expenditures.
- Underwriting and grant solicitation – Budgeted included the addition of a fourth sales person for KUHF, but the hiring selection was not completed until mid-year. Since this position had been budgeted for a full year, KUHF realized a reduction in actual expenditures.
- Management and general – Increased auxiliary, audit, and legal fees were not budgeted. Also, an increase in KUHF staff resulted in some additional expenses in reconfiguring the workstations, which was not capitalizable.
- Institutional support is calculated after UH closes its fiscal year. The calculation is based upon actual expenses of both the Stations and the University themselves; therefore, the Stations do not budget general support.

**Requests for Information**

Questions regarding the information provided in this Annual Financial Report or request for additional financial information should be addressed to the Director of Finance and Business Operations for Public Broadcasting at: KUHF-FM & KUHT-TV, 4343 Elgin, Houston, TX 77204-0008.

## **BASIC FINANCIAL STATEMENTS**

**PUBLIC BROADCASTING**  
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Statements of Net Assets

August 31, 2010 and 2009

Assets	2010		2009	
	Primary institution	Component unit (ACB)	Primary institution	Component unit (ACB)
Current assets:				
Cash and equivalents	\$ —	284,737	240,690	374,410
Accounts receivable, net	876,008	134,799	1,003,229	467,800
Due from ACB	543,553	—	1,122,501	—
Pledge receivable from ACB	90,000	—	60,000	—
Pledge receivable	—	90,000	—	60,000
Restricted cash and equivalents	—	146,201	—	217,051
Investments unrestricted for endowment	325,847	—	304,126	—
Other current assets	—	—	—	331
Total current assets	1,835,408	655,737	2,730,546	1,119,592
Noncurrent assets:				
Pledge receivable	—	79,722	—	133,867
Pledge receivable from ACB	79,722	—	133,867	—
Capital assets, net	9,456,698	245,585	10,281,793	186,080
Film rights, net	63,926	—	40,674	—
Investments restricted for endowment	42,323	419,623	39,341	399,670
Total noncurrent assets	9,642,669	744,930	10,495,675	719,617
Total assets	11,478,077	1,400,667	13,226,221	1,839,209
<b>Liabilities and Net Assets</b>				
Current liabilities:				
Due to UH System	3,354,879	—	3,145,719	—
Due to primary institution	—	543,553	—	1,122,501
Pledge payable to primary institution	—	90,000	—	60,000
Accounts payable	27,497	77,395	129,184	—
Accrued payroll	614,973	—	590,445	—
Unearned revenue	—	56,886	—	67,554
Other current liabilities	—	—	3,500	—
Employees' compensable leave	589,711	—	640,762	—
Total current liabilities	4,587,060	767,834	4,509,610	1,250,055
Noncurrent liabilities:				
Pledge payable to primary institution	—	79,722	—	133,867
Total noncurrent liabilities	—	79,722	—	133,867
Net assets:				
Invested in capital assets	9,456,698	245,585	10,281,793	186,080
Restricted:				
Expendable for production and outreach programs	—	146,201	—	217,051
Nonexpendable	42,323	419,623	39,341	399,670
Unrestricted	(2,608,004)	(258,298)	(1,604,523)	(347,514)
Total net assets	\$ 6,891,017	553,111	8,716,611	455,287

See accompanying notes to basic financial statements.

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)  
Statements of Revenues, Expenses, and Changes in Net Assets  
Years ended August 31, 2010 and 2009

	2010		2009	
	Primary institution	Component unit (ACB)	Primary institution	Component unit (ACB)
Operating revenues:				
Contributions	\$ 2,548,219	7,389,400	2,825,420	7,750,095
Contribution grants from ACB	6,321,296	—	6,518,509	—
General support from the UH System	4,804,988	—	4,230,552	—
Program underwriting	3,179,466	10,667	3,579,452	10,667
Production service	852,277	738,558	279,309	864,830
Production grants from ACB	167,195	—	388,260	—
Corporation for Public Broadcasting grants (CPB)	2,125,322	—	2,112,537	—
Other grants	47,208	—	331,778	—
Royalties	10,514	—	111,078	—
Special events	319,556	389,584	172,638	113,573
Special events grants from ACB	116,699	—	107,399	—
Other grants from ACB	14,576	—	1,233	—
Other	41,296	60,130	87,214	877
Total operating revenues	20,548,612	8,588,339	20,745,379	8,740,042
Operating expenses:				
Grants to primary institution (MGT)	—	6,619,766	—	7,015,401
Programming and production (PRD)	7,413,545	694,434	6,797,988	315,622
Broadcasting, engineering, and technical (BET)	2,452,698	1,324	2,578,088	—
Occupancy and physical plant operations (BET)	508,511	—	542,346	—
Program information (PGM)	1,006,564	28,258	1,062,373	3,034
Fundraising and membership development (FND)	3,397,343	1,032,264	3,670,517	1,229,427
Underwriting and grant solicitation (UND)	817,518	—	526,565	—
Management and general (MGT)	1,972,238	84,987	1,798,653	62,482
Institutional support (MGT)	4,296,477	—	3,688,206	—
Depreciation	927,943	50,705	894,500	28,663
Total operating expenses	22,792,837	8,511,738	21,559,236	8,654,629
Operating income (loss)	(2,244,225)	76,601	(813,857)	85,413
Nonoperating income:				
KUHT insurance recovery	393,929	—	—	—
Interest income	—	—	6,787	—
Gain (loss) from endowment	24,702	21,223	(65,572)	(36,787)
Total nonoperating income	418,631	21,223	(58,785)	(36,787)
Change in net assets	(1,825,594)	97,824	(872,642)	48,626
Net assets, beginning of year	8,716,611	455,287	9,589,253	406,661
Net assets, end of year	\$ 6,891,017	553,111	8,716,611	455,287

See accompanying notes to basic financial statements.

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)  
Statements of Cash Flows  
Years ended August 31, 2010 and 2009

	<u>2010</u> <u>Primary</u> <u>institution</u>	<u>2009</u> <u>Primary</u> <u>institution</u>
Cash flows from operating activities:		
Proceeds from contributions	\$ 8,893,660	9,331,023
Proceeds from CPB grant	2,125,322	2,112,537
Proceeds from other grants	58,318	102,387
Proceeds from program underwriting	3,874,525	3,237,358
Proceeds from other revenues	1,916,042	1,147,131
Payments to suppliers for goods and services	(5,135,319)	(5,367,010)
Payments to employees	(8,277,768)	(7,602,600)
Payments for broadcasting fees	(2,684,330)	(2,687,855)
Payments for other expenses	(1,037,887)	(665,919)
Net cash used in operating activities	<u>(267,437)</u>	<u>(392,948)</u>
Cash flows from noncapital financing activities:		
Advances from UH System	209,160	616,185
Net cash provided by noncapital financing activities	<u>209,160</u>	<u>616,185</u>
Cash flows from capital and related financing activities:		
Payments for additions to capital assets	(102,848)	(1,109,676)
Payments for additions of film rights	(79,565)	(65,997)
Net cash used in capital and related financing activities	<u>(182,413)</u>	<u>(1,175,673)</u>
Cash flows from investing activities:		
Interest from claim on cash	—	6,787
Net cash provided by investing activities	<u>—</u>	<u>6,787</u>
Decrease in cash and cash equivalents	(240,690)	(945,649)
Cash and cash equivalents, beginning of year	240,690	1,186,339
Cash and cash equivalents, end of year	<u>\$ —</u>	<u>240,690</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (2,244,225)	(813,857)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	927,943	894,500
Amortization of film rights	56,312	86,980
KUHT insurance recovery	393,929	—
(Increase) decrease in accounts receivable	127,221	(237,868)
(Increase) decrease in amounts due from ACB	578,948	(388,234)
Decrease in pledge receivable	24,145	41,711
Decrease in accounts payable	(101,687)	(135,256)
Increase in accrued payroll	24,528	71,755
Increase (decrease) in compensated absences payable	(51,051)	87,321
Decrease in other liabilities	(3,500)	—
Total adjustments	<u>1,976,788</u>	<u>420,909</u>
Net cash used in operating activities	<u>\$ (267,437)</u>	<u>(392,948)</u>

See accompanying notes to basic financial statements.

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Notes to Basic Financial Statements

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**(1) Entity**

The Public Broadcasting Division (the Stations), of the University of Houston (UH) System (the System) which consists of a noncommercial, listener supported radio station (KUHF) and viewer-supported television station (KUHT), serves as Houston's National Public Radio (NPR) affiliate and classical music source and Houston's Public Broadcasting Services (PBS) affiliate. KUHF signed on the air in 1950 as a public radio station. KUHT signed on the air on May 25, 1953 as the nation's first noncommercial educational television station. KUHF provides news and cultural programming at both local and national levels. KUHT provides the building blocks for the Stations' schedule with locally produced and acquired programs selected primarily for their appeal to a national audience; programs chosen on the basis of quality and audience interests and presented uninterrupted by commercial announcements. The Stations, licensed to the Board of Regents of the System, are located at the System's Central campus, and are a division of the System. As a division of the System, the Stations are exempt from federal income taxes. The Stations currently operate 24 hours a day. The Stations are located in the fourth largest metropolitan area of the United States. These financial statements present financial information that is attributable to the Stations and do not purport to, and do not present fairly, the financial position of the System.

The Stations are dedicated to education and outreach through a wide variety of activities like community advancement, and expanding and strengthening partnerships and collaborations with key arts organizations in Houston. In pursuing all the dissimilar goals, the Stations have consistently used cutting-edge technology to extend the value of its services.

KUHT is a full service television station licensed to the University of Houston and is also known as HoustonPBS. The studio facilities are on the University of Houston campus in the LeRoy and Lucile Melcher Center for Public Broadcasting. The transmitter facilities are located in Missouri City, Texas. KUHT began broadcasting May of 1953 and was the first station in the country to operate on a specially reserved noncommercial television channel. The digital video services offered today include one high definition program service and two standard definition services. KUHT was the first Houston television station to offer closed captioning for hearing impaired viewers and descriptive video for visually impaired persons. It was the first in Houston to offer stereo broadcasts and the first to make use of the Second Audio Program capabilities to provide additional services to the Greater Houston area including access to the Houston Taping for the Blind radio service. The broadcast signal reaches thirty-three counties in southeast Texas and is carried on numerous cable television systems as well as both the Dish Network and DirecTV satellite services.

KUHF's new media technologies are rapidly developing with the changing landscape of on-demand media around the world. Current services include all news and all music internet streams, podcasts, on-demand shows, user interactive event calendar, RSS feeds, iPhone applications, Blackberry applications, and iPad applications. Projects in development include Android applications, option to purchase programming list, and development of two separate web sites to support 24 hours of news and 24 hours of music programming and community support. KUHF's new media group is now 4 full-time staff members, with opportunities for intern training. Such internships are also available in News, Production, Public Relations, Development, Music, and Business.

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The Association for Community Broadcasting (ACB), formerly known as the Association for Community Television (ACT), was organized in 1969, as a Texas nonprofit corporation, primarily for the purpose of providing financial and other support to the Station, Channel 8, in Houston, Texas. On January 25, 2005, the Board of Regents of the System and ACT agreed that the same services provided to KUHT would also be provided to KUHF and thus adopted the ACB name.

The System and ACB, as part of an ongoing agreement, have stipulated that all grants for the Stations' programming and other activities will be deposited with the System's Office of Sponsored Programs or, at the discretion of the general manager of the Stations, deposited in accounts maintained by ACB and immediately and exclusively available to the Stations.

ACB is directed by a Board of Directors, who are elected by other ACB Directors, and is managed on a daily basis by a combination of Board Officers and the Stations' employees. There are no separately issued financial statements of ACB.

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Accounting**

The financial accounting records of the Stations are maintained by the System's Office of the Associate Vice Chancellor for Finance in accordance with accounting principles generally accepted in the United States of America for colleges and universities.

The financial statements for both the Stations and ACB are presented using the economic resources measurement focus and the accrual basis of accounting whereby revenues are recorded when earned and all expenses are recorded when they have been incurred.

**(b) Reporting Guidelines**

Based on the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, proprietary funds are reported based on all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) Statements and Interpretation, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The Stations have elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. The Stations are reported as a single purpose business-type activity entity. In addition, the Stations' financial statements have been prepared in accordance with the Corporation for Public Broadcasting's (CPB) *Application Principles of Accounting and Financial Reporting to Public Telecommunications Entities*.

**(c) Net Assets**

*Invested in capital assets* – represents the Stations' total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but

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not yet expended for capital assets, such amounts are not included as a component of net assets invested in capital assets, net of related debt.

*Nonexpendable restricted net assets* – are subject to externally imposed provisions that require the Stations to permanently maintain such net assets. The corpus of KUHT endowments is included in nonexpendable restricted net assets.

*Expendable restricted net assets* – represent income received from an endowment, which is available for purposes restricted by the donor, and can include gifts restricted by the donor for a specific purpose.

*Unrestricted net assets* – represent resources that are available for the support of the Stations operations.

When the Stations incur an expense for which both restricted and unrestricted resources may be used, it is the Stations' policy to use restricted resources first, then unrestricted resources.

**(d) Revenues**

Operating revenues include sources that are primarily used to provide services to the Stations' audience. Substantially all of the Stations' revenues are considered operating with the exception of net change in fair value of endowments, insurance recoveries, and other investment income.

Unrestricted contributions and gifts do not have binding agreements and are recorded as revenues when received. Unrestricted grants are recorded as revenues at the time the grant awards are received and when eligibility requirements have been met. Restricted support and revenues are recognized upon incurring the appropriate expenses or meeting the eligibility requirements.

**(e) Accounts Receivable**

Accounts receivable are stated at the amount billed to customers or grantors. Accounts receivable are ordinarily due 30 days after the issuance of an invoice. The Stations provide an allowance for delinquent receivables, which is based upon a review of outstanding receivables, historical collections, and existing economic conditions.

**(f) Pledges Receivable**

Unconditional promises to give (pledges) that are measurable are recorded after being discounted to the anticipated net present value of the future cash flows. The Stations provide an allowance for estimated uncollectable pledges, which is based upon a review of outstanding pledges receivable, historical collections, and existing economic conditions.

**(g) Cash and Cash Equivalents**

Cash and cash equivalents are considered to be claims on cash, cash on hand, and demand deposits with original maturities of three months or less from the date of acquisition.

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Cash and cash equivalents represent the Stations' prorated share of commingled cash and cash equivalents held and invested by the System acting as the Stations' fiscal agent to optimize the rate of return. All of the funds included in cash and cash equivalents are insured or registered, or are securities held by the System or its agent in the System's name.

Immediately upon formal written notification of an approved appropriation or grant, the System permits the Stations to draw cash against the full appropriation or grant (in compliance with the terms of the appropriation or grant) regardless of whether the System has received the related funds.

For current unrestricted and restricted accounts, the System allocated a percentage of the interest income earned to the Stations at a fixed rate based on its monthly average cash balance.

**(h) Capital Assets**

Capital assets represent buildings and equipment acquired primarily for the operation of the Stations. Title of the buildings and equipment rests with the State of Texas (the State) in the name of the System, and therefore, such assets can be transferred to or from the Stations at the discretion of the System. The threshold for capitalization of assets is \$5,000 and over. Capital assets are stated at cost at the date of acquisition, or fair value at the date of donation. Expenditures for repairs and maintenance are charged to current operating expenses as incurred. Depreciation is recorded on a straight-line basis over the following useful lives of the assets:

Buildings and building improvements	22 – 30 years
Furniture and equipment	5 – 10 years
Other assets	5 years

Useful lives are established by a uniform classification system maintained by the State and are measured from the date of acquisition.

**(i) Film Rights**

Film rights purchased are amortized over the respective contract periods on a straight-line basis or over the period of expected usage. Estimated useful lives of such rights range from one to five years.

**(j) In-Kind Contributions**

In-kind contributions included in revenues and expenses in the Statement of Revenues, Expenses, and Changes in Net Assets consist of general support from the System, which is further described in note 10.

The fair value of merchandise contributed by third parties in connection with the Stations' fund-raising activities is not included in the financial statements. Donated in-kind contributions of services and other intangibles, as well as promotional merchandise and donated personal services, are also not included in the financial statements.

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**(k) *Unearned Revenues***

Grant and program underwriting revenues received relating to the period after fiscal year-end are reported as unearned revenues.

**(l) *Advertising***

Advertising costs are charged to operations when incurred.

**(m) *Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**(n) *Employees' Compensable Leave***

Stations' employees are classified as state employees and as such are entitled to be paid for all unused vacation time accrued in the event of the employee's resignation, dismissal, or separation from state employment provided the employee has had continuous employment with the State for six months. An expense and liability are recorded as the benefits accrue to employees.

Full-time State employees earn annual leave from eight to twenty-one hours per month depending on the respective employees' years of state employment. The State's policy is that an employee may carry accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 532 for those employees with 35 or more years of state service. Accrued leave in excess of the normal maximum is converted to sick leave at the conclusion of fiscal year. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed.

**(o) *Fair Value Measurements***

ACB has investments in external investments pools. In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools*, the fair value is determined by the fair value per share of the external investment pools' underlying portfolio. Neither of the external investment pools are publicly registered, and the fair value of the position of the pool the same as the value of the pool shares.

**(p) *New Accounting Pronouncements***

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance, to be applied in addition to the existing authoritative guidance for capital assets, include guidance on recognizing intangible assets in the statement of net assets, guidance on determining the useful life of intangible assets and guidance on amortizing intangible assets. The requirements of Statement No. 51 are effective for

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Notes to Basic Financial Statements

August 31, 2010 and 2009

financial statements for periods beginning after June 15, 2009. The Stations do not believe that the adoption of Statement No. 51 will have any significant impact on its financial position, changes in financial position or cash flows.

**(q) Presentation of Discrete Component Unit**

ACB is a legally separate and tax-exempt entity meeting all of the following criteria to be discretely presented as a component unit. These criteria are:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The financial statements of the Primary Institution and the Component Unit, ACB, are presented using the same categories in order to provide consistency. ACB is not a governmental entity, and as such, current year data have been made to conform to reporting under GASB.

**(3) Endowment Funds**

**(a) Primary Institution**

Gifts to the UH System are placed in the System's endowment fund which is a pooled investment of individual endowments benefitting the entire System.

The System's Endowment Fund allocated income (net of management fees) to the individual endowments based on an income allocation policy that establishes the income payment rate as a percentage on the average of the outstanding endowment's fair value in the previous three fiscal years. That percentage was 4% and 3% in fiscal years 2010 and 2009. If an endowment were in existence less than three years, the average was based on the number of years in existence.

The deposits and investments of the Stations and ACB are exposed to certain inherent risks, such as credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The deposits and investments with the University of Houston Endowment Fund are exposed to risks that have the potential to result in losses. Those risks and their definitions are:

- Credit risk – the risk an insurer or counterparty to an investment will not fulfill its obligation
- Custodial risk – the risk that, in the case of default by the counterparty, a government will be unable to recover its deposit/investment or collateralizing securities in the possession of an outside party

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- Concentration risk – the risk of loss attributable to the size of a government’s investment in a single issuer
- Interest rate risk – the risk that changes in interest rates will adversely affect the fair value of investments
- Foreign currency risk – the risk that changes in exchange rates will adversely affect the fair value of a deposit or investment

During fiscal year 2010, the Endowment Management Committee of the UH System Board of Regents continued to review existing objectives, risks, asset allocation, and manager structure within the endowment portfolio. The UH System Endowment Fund Statement of Investment Objectives and Policies, among other things, establishes financial objectives for the endowment and an asset allocation with targets and ranges and categorizes each asset class as either a risk reducer or a driver of return. Further information regarding the investment balances and risks with the UH System Endowment Fund, which does not have a credit rating, may be obtained from the UH System Office of the Treasurer.

The following summarizes activity for the years ended August 31, 2010 and 2009:

Balance, August 31, 2008	\$ 409,040
2009 realized/unrealized loss	<u>(65,572)</u>
Balance, August 31, 2009	343,468
2010 realized/unrealized gain	<u>24,702</u>
Balance, August 31, 2010	<u><u>\$ 368,170</u></u>

The assets of the Stations’ quasi-endowments totaled \$325,847 and \$304,126 at August 31, 2010 and 2009, respectively and are not legally restricted. As of August 31, 2010, the total unrealized gain for the period related to assets still held at the reporting date. Unrealized gains and losses for the current year are recorded in the Statement of Revenue, Expenses, and Changes in Net Assets.

**(b) Component Unit (ACB)**

The gifts received by ACB to create endowed accounts are invested in the ACB Endowment Fund Investment Pool (the Investment Pool), which is operated and overseen by the ACB Endowment Fund (the Endowment) and Gift Committee. The Investment Pool combines the assets of all endowment fund accounts and is allocated to external investment managers. The objectives of the Investment Pool are to protect the real value of the ACB Endowment Fund, while maximizing the amount distributed annually for endowed spending as further described in the ACB Endowment Fund Investment Policy. Thus, in any given year, any excess over the amount distributed from the ACB Endowment Fund will be reinvested to protect the capital against erosion by inflation.

The Endowment’s spending policy is consistent with its investment objective of achieving long-term real growth in its assets. In order to achieve such long-term real growth, the Endowment should have

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as a goal that its total distributions and expenses not exceed the Endowment's total inflation-adjusted return on investments. Consistent with the Endowment's long-term investment objectives, the Board of Directors established the spending policy, which permits total distributions and expenses (including but not limited to investment management fees) not in excess of an amount equal to 4% of the average net asset value of the Endowment over the prior 3 years (or the life of the Endowment if shorter than 3 years).

The ACB Endowment Fund has a related operating account to which annual income distributed from the endowment funds is deposited and to which expenditures, in accordance with the donor's wishes, may be charged. In the event that there is a balance in the ACB Endowment Fund operating account at fiscal year-end, it will automatically be transferred back to the endowment funds on a prorated basis (according to the income distributed). This procedure is called "Endowment Capitalization." It is in the ACB Endowment Fund's best interests that surplus funds are capitalized, since they will yield new units and thus generate additional income in future years.

The ACB Investment Pool is invested with an external investment manager in commingled funds who invest, for example, in marketable securities, fixed income, alternative investments, real estate, and cash equivalents. The Investment Pool reported a fair value of \$419,623 as of August 31, 2010 and \$399,670 as of August 31, 2009, is not publicly traded, and has been estimated by fund managers in the absence of readily available market values. These investments are domestic and international in nature and risks associated with these investments include liquidity risk, market risk, event risk, foreign exchange risk, interest rate risk, and investment manager risk.

These investments are held with the Greater Houston Community Foundation, which does not have a credit rating, and further information regarding the investment balances and risks with the Greater Houston Community Foundation may be obtained from ACB business offices by calling 713-748-8888.

The following summarizes activity for the years ended August 31, 2010 and 2009:

Balance, August 31, 2008	\$	387,427
Loss from endowment		(37,857)
Purchases		<u>50,100</u>
Balance, August 31, 2009		399,670
Gain from endowment		21,223
Administrative charges		<u>(1,270)</u>
Balance, August 31, 2010	\$	<u><u>419,623</u></u>

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As of August 31, 2010 and 2009, the total unrealized gain for the period related to assets still held at the reporting date. Unrealized gains and losses for the current year are recorded in the Statement of Revenues, Expenses, and Changes in Net Assets.

**(4) Accounts Receivable**

Accounts receivable as of August 31, 2010 comprised the following:

	<u>Primary institution</u>	<u>Component unit (ACB)</u>
Accounts receivable	\$ 941,548	147,999
Allowance for doubtful accounts	(65,540)	(13,200)
Total	<u>\$ 876,008</u>	<u>134,799</u>

Accounts receivable as of August 31, 2009 comprised the following:

	<u>Primary institution</u>	<u>Component unit (ACB)</u>
Accounts receivable	\$ 1,065,003	481,000
Allowance for doubtful accounts	(61,774)	(13,200)
Total	<u>\$ 1,003,229</u>	<u>467,800</u>

Accounts receivable for Public Broadcasting and ACB consist primarily of production grants and underwriting support.

**(5) Pledge Receivable**

As of August 31, 2010 and 2009, ACB had a pledge receivable consisting of an unconditional promise to give in connection with a board room naming program as follows:

	<u>2010</u>	<u>2009</u>
Receivable within one year	\$ 90,000	60,000
Receivable in two to five years	90,000	150,000
Less discount at 4.125%	(10,278)	(16,133)
Pledge receivable in two to five years, present value	<u>\$ 169,722</u>	<u>193,867</u>

As of August 31, 2010 and 2009, there was no allowance for estimated uncollectable pledges. The pledge receivable from ACB due to the primary institution consisted of the same amounts presented above.

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**(6) Capital Assets**

Capital asset activities for the year ended August 31, 2010 were as follows for the Stations:

	<u>Balance, August 31, 2009</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance, August 31, 2010</u>
Capital assets:				
Construction in progress	\$ 135,890	(135,890)	—	—
Buildings and building improvements	12,637,863	—	—	12,637,863
Furniture and equipment	10,017,198	204,272	83,178	10,138,292
Vehicle	—	34,466	—	34,466
Other assets	75,000	—	—	75,000
Total capital assets	22,865,951	102,848	83,178	22,885,621
Less accumulated depreciation	12,584,158	927,943	83,178	13,428,923
Net capital assets	<u>\$ 10,281,793</u>	<u>(825,095)</u>	<u>—</u>	<u>9,456,698</u>

Capital asset activities for the year ended August 31, 2010 were as follows for ACB:

	<u>Balance, August 31, 2009</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance, August 31, 2010</u>
Capital assets:				
Land	\$ 14,100	—	—	14,100
Program costs	652,089	—	—	652,089
Equipment	424,249	—	—	424,249
Other assets	4,050	—	—	4,050
Accounting software	—	110,210	—	110,210
Total capital assets	1,094,488	110,210	—	1,204,698
Less accumulated depreciation	908,408	50,705	—	959,113
Net capital assets	<u>\$ 186,080</u>	<u>59,505</u>	<u>—</u>	<u>245,585</u>

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Capital asset activities for the year ended August 31, 2009 were as follows for the Stations:

	<u>Balance, August 31, 2008</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance, August 31, 2009</u>
Capital assets:				
Construction in progress	\$ 118,012	17,878	—	135,890
Buildings and building improvements	12,637,863	—	—	12,637,863
Furniture and equipment	10,668,518	1,091,798	1,743,118	10,017,198
Other assets	75,000	—	—	75,000
Total capital assets	23,499,393	1,109,676	1,743,118	22,865,951
Less accumulated depreciation	13,432,776	894,500	1,743,118	12,584,158
Net capital assets	<u>\$ 10,066,617</u>	<u>215,176</u>	<u>—</u>	<u>10,281,793</u>

Capital asset activities for the year ended August 31, 2009 were as follows for ACB:

	<u>Balance, August 31, 2008</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance, August 31, 2009</u>
Capital assets:				
Land	\$ 14,100	—	—	14,100
Program costs	652,089	—	—	652,089
Furniture and equipment	424,249	—	—	424,249
Other assets	4,050	—	—	4,050
Total capital assets	1,094,488	—	—	1,094,488
Less accumulated depreciation	879,745	28,663	—	908,408
Net capital assets	<u>\$ 214,743</u>	<u>(28,663)</u>	<u>—</u>	<u>186,080</u>

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**(7) Film Rights**

KUHT pays for the right to use certain films in its broadcasting activities. The costs of those rights are amortized over the purchased periods. Changes in the costs of film rights for the year ended August 31, 2010 and 2009 were as follows:

Balance, August 31, 2008	\$ 61,657
2009 additions	<u>65,997</u>
Total	127,654
2009 amortization	<u>(86,980)</u>
Balance, August 31, 2009	40,674
2010 additions	<u>79,564</u>
Total	120,238
2010 amortization	<u>(56,312)</u>
Balance, August 31, 2010	<u><u>\$ 63,926</u></u>

**(8) Due to the System**

Since the Stations maintain all of their cash balances with the System's treasury department, the System permits the Stations to overdraw their claims on cash account from time to time. The amount disclosed in the "Due to the System" account represents the amount by which the Stations have overdrawn its claim on cash account with the System as of August 31, 2010 and 2009.

**(9) Unrestricted Net Deficit**

The Stations have been experiencing a net excess of expenses over revenues, resulting in a net deficit of unrestricted net assets. The net deficit of unrestricted net assets at August 31, 2010 and 2009 was \$(2,608,004) and \$(1,604,523), respectively. The deficit resulted mainly from general increases in operating expenses over and above increases in operating revenues. The ACB net deficit of unrestricted assets at August 31, 2010 and 2009 was \$(258,298) and \$(347,514), respectively. The decrease in the balance was due to the usage of funds from the unrestricted pool to cover the over-expended restricted projects. In response to this situation, management is developing plans to generate additional unrestricted resources through more robust marketing efforts and fundraising campaigns to foundations and individuals, and to more effectively control operating costs within the foreseeable future.

**(10) General Support from the System**

General support from the System includes building and related occupancy costs donated by the System and are recorded in revenues and expenses. The occupancy costs are determined based on the net book value of the building and tower, as well as the square footage of the building and tower utilized by the Stations. Occupancy cost was \$325,429 in both fiscal year 2010 and fiscal year 2009. The Stations also receive from the University the plant facility operations cost (lawn maintenance, carpeting painting, etc.), which was

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\$183,082 in fiscal year 2010 and \$216,917 in fiscal year 2009. The System also provides indirect administrative support and maintenance support to the Stations, which are recorded in revenues and expenses based on the System's allocation methods. Indirect administrative support amounted to \$4,296,477 in fiscal year 2010 and \$3,688,206 in fiscal year 2009.

**(11) Corporation for Public Broadcasting Grants**

CPB is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public broadcasting entities. CSGs are used to augment the financial resources of public broadcasting entities and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the Communications Act, 47 United States Code Annotated, Section 396(k)(7). In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, CSG funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

Certain General Provisions must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These General Provisions pertain to the use of grant funds record-keeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

**(12) Pension Plan**

The Stations participate in the State joint contributory retirement plans and thereby provide retirement plans for substantially all of its employees designated as "benefit eligible." One of the primary plans in which the Stations participate is administered by the Teacher Retirement System of Texas (the TRS), a cost-sharing, multiple-employer pension plan. The TRS operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. By statute, TRS participating employees must contribute 6.4% of their salary to the plan and the Stations contribute an amount equal to 6.644% times the aggregate annual compensation during the fiscal year.

The TRS does not account for each of its component governmental agencies, since the TRS itself bears sole responsibility for retirement commitments beyond contributions fixed by the Texas State Legislature. Contributions to the plan by the Stations amounted to \$372,618, \$345,953, and \$302,407 in 2010, 2009, and 2008, respectively. The total amount of employee contributions was \$56,713, \$53,535, and \$46,413 in 2010, 2009, and 2008, respectively. These contributions represent 100% of the required contribution.

The TRS's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, TX 78701-2698 or by calling 800-877-0123.

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The State has also established an Optional Retirement Program (the ORP) for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS. The ORP is an individualized defined contribution plan, which provides for the purchase of annuity or mutual fund contracts.

For employees participating prior to September 1, 1995, the contributions to the ORP by the Stations and by each participant during fiscal year 2009 were 8.5% of the participants' annual compensation. Employees hired on or after September 1, 1995, may contribute 6.65% of their gross salary monthly with the Stations contributing 6.4% of the employee's gross salary to the ORP account. Contributions to the plan by the Stations amounted to \$51,428, \$54,980, and \$49,695 in 2010, 2009, and 2008, respectively. The total amount of employee contributions was \$7,187, \$9,917, and \$7,778 in 2010, 2009, and 2008, respectively. Since these are individual investment product contracts, the State has no additional or unfunded liability for the ORP. These contributions represent 100% of the required contribution.

**(13) Leases**

The Stations have entered into operating leases for various business purposes including a tower antenna, fund-raising software, a utility van, fax and copy machine, Web host connection in support of their operations, transmitting facility, and other equipment. Both Stations have short- and long-term operating leases. During the year ended August 31, 2010 and 2009, the lease expense was \$420,536 and \$470,847, respectively.

Future minimum lease payments under noncancelable operating lease agreements are as follows:

	<u>Amount</u>
Year ending August 31:	
2011	\$ 267,647
2012	274,227
2013	207,774
2014	167,959
2015	169,186
2016	104,460
	<u>\$ 1,191,253</u>

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**(14) Transactions between Primary Institution and Component Unit**

Cash expenditures made by ACB on behalf of the Stations, such as expenditures associated primarily with fund-raising for the Stations and production of the Stations' local programs, are recorded as revenues and expenses in the Stations. Such cash expenditures for the fiscal year ended August 31, 2010 and 2009 amounted to \$1,879,021 and \$1,762,154, respectively, and have been included in the contributions and production service revenues and in operating expenses in the Statement of Revenues, Expenses, and Changes in Net Assets.

**(15) Income Taxes**

The System, of which the Stations is a division, is a university established as an agency of the State prior to 1969, and is qualified as a governmental entity not generally subject to federal income tax by reason of being a state or political subdivision thereof, or an integral part of a state or political subdivision thereof or an entity whose income is excluded from gross income for federal income tax purposes under section 115 of the Internal Revenue Code of 1986 (IRC). However, as a state college or university, the System is subject to unrelated business income pursuant to IRC section 511(a)(2)(B). No material unrelated business income tax was incurred for the years ended August 31, 2010 and 2009. ACB, whose purpose is to raise money for the Stations, is exempt from income taxes under IRC section 501(a) as an organization described in IRC Section 501(c)(3). No material unrelated business income tax was incurred by ACB for the years ended August 31, 2010 and 2009. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

**(16) Insurance Recovery**

As of August 31, 2009, the Stations had an insurance claim related to business interruption losses at the Stations, which had not been settled with the insurance carrier, and, as such, represented a contingent gain not recorded on the fiscal year 2009 financial statements. The claim was settled for \$393,929 and the check was received in December 2009 and was recorded in the fiscal year 2010 financial statements.

**(17) Risk Management**

The Stations are exposed to various risks of loss related to torts, injuries to employees, and natural disasters. The System carries commercial insurance to cover losses to which the Stations may be exposed.

**(18) Subsequent Event Disclosure**

On October 12, 2010, the University entered into an Asset Purchase Agreement with Rice University whereby the University would purchase the FCC license, FM frequency, and broadcast tower used by the student-run Rice radio station, KTRU-FM, as well as certain real property on which the broadcast and other transmission equipment is located. The agreed purchase price is \$9,932,000 cash with an additional \$432,000 in noncash consideration. Federal Communications Commission consent for the sale is pending.

## **OTHER SUPPLEMENTARY INFORMATION**

**PUBLIC BROADCASTING**  
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Schedule of Functional Expenses  
Year ended August 31, 2010

Schedule 1

Class	Programming and production (PRD)	Broadcasting, engineering, and technical (BET)	Program information (PGM)	Total	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Total	Grand total
Salaries and wages	\$ 2,675,919	799,856	716,693	4,192,468	920,915	994,354	596,029	2,511,298	6,703,766
Fringe benefits	606,151	185,827	164,917	956,895	219,194	219,121	152,268	590,583	1,547,478
Financial and legal services	6,865	3,027	1,448	11,340	229,919	203,981	6,946	440,846	452,186
Fundraising	13,758	—	26,876	40,634	693,239	862	4,306	698,407	739,041
Membership fees	387,384	16,475	202	404,061	16,830	43,415	935	61,180	465,241
Other expenses	598,038	8,486	24,336	630,860	104,245	294,489	12,318	411,052	1,041,912
Postage	3,429	651	3,194	7,274	526,227	2,359	3,165	531,751	539,025
Printing and reproduction services	17,486	—	8,513	25,999	116,450	1,318	545	118,313	144,312
Professional services	156,855	74,253	11,506	242,614	148,437	41,833	25,156	215,426	458,040
Program rights	2,730,497	—	—	2,730,497	10,146	—	—	10,146	2,740,643
Rental and leases	19,417	385,541	28,973	433,931	81,700	18,764	—	100,464	534,395
Repair and maintenance	7,214	293,960	337	301,511	2,640	14,590	—	17,230	318,741
Supplies and materials	44,667	203,583	6,862	255,112	24,096	95,204	410	119,710	374,822
Telemarketing services	—	—	—	—	200,674	—	—	200,674	200,674
Telephone	70,336	113,194	6,954	190,484	72,870	24,366	3,646	100,882	291,366
Travel	66,848	2,427	5,753	75,028	29,761	4,301	11,794	45,856	120,884
Utilities	4,500	365,418	—	369,918	—	13,281	—	13,281	383,199
Broadcasting fees	4,181	—	—	4,181	—	—	—	—	4,181
	7,413,545	2,452,698	1,006,564	10,872,807	3,397,343	1,972,238	817,518	6,187,099	17,059,906
In-kind:									
General support from the System	—	508,511	—	508,511	—	4,296,477	—	4,296,477	4,804,988
Total expenses before depreciation	\$ 7,413,545	2,961,209	1,006,564	11,381,318	3,397,343	6,268,715	817,518	10,483,576	21,864,894
Percentage of total expenses before depreciation	34%	14%	4%	52%	16%	29%	3%	48%	100%

See accompanying independent auditors' report.

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Schedule of Functional Expenses

Year ended August 31, 2009

Class	Programming and production (PRD)	Broadcasting, engineering, and technical (BET)	Program information (PGM)	Total	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Total	Grand total
Salaries and wages	\$ 2,431,752	794,518	706,007	3,932,277	967,069	934,897	381,154	2,283,120	6,215,397
Fringe benefits	578,613	218,435	179,320	976,368	242,308	231,907	95,696	569,911	1,546,279
Financial and legal services	10,447	2,661	649	13,757	190,962	120,193	7,335	318,490	332,247
Fundraising	10,502	—	22,154	32,656	678,180	987	787	679,954	712,610
Membership fees	395,455	445	506	396,406	18,737	42,845	320	61,902	458,308
Other expenses	282,526	17,545	37,204	337,275	117,107	197,375	14,163	328,645	665,920
Postage	2,030	1,185	4,534	7,749	800,677	3,100	552	804,329	812,078
Printing and reproduction services	697	104	6,971	7,772	74,325	1,856	717	76,898	84,670
Professional services	161,296	66,419	5,420	233,135	153,001	57,849	6,439	217,289	450,424
Program rights	2,758,346	—	4,711	2,763,057	11,778	—	—	11,778	2,774,835
Rental and leases	(56,087)	480,885	60,485	485,283	75,290	23,713	24	99,027	584,310
Repair and maintenance	12,634	165,214	—	177,848	422	23,851	—	24,273	202,121
Supplies and materials	63,463	208,050	14,805	286,318	34,154	117,354	897	152,405	438,723
Telemarketing services	—	—	—	—	144,801	—	—	144,801	144,801
Telephone	88,923	134,233	8,938	232,094	111,231	25,118	3,802	140,151	372,245
Travel	55,554	3,802	10,669	70,025	50,475	17,608	14,679	82,762	152,787
Utilities	—	484,370	—	484,370	—	—	—	—	484,370
Broadcasting fees	1,837	222	—	2,059	—	—	—	—	2,059
	<u>6,797,988</u>	<u>2,578,088</u>	<u>1,062,373</u>	<u>10,438,449</u>	<u>3,670,517</u>	<u>1,798,653</u>	<u>526,565</u>	<u>5,995,735</u>	<u>16,434,184</u>
In-kind:									
General support from the System	—	542,346	—	542,346	—	3,688,206	—	3,688,206	4,230,552
Total expenses before depreciation	<u>\$ 6,797,988</u>	<u>3,120,434</u>	<u>1,062,373</u>	<u>10,980,795</u>	<u>3,670,517</u>	<u>5,486,859</u>	<u>526,565</u>	<u>9,683,941</u>	<u>20,664,736</u>
Percentage of total expenses before depreciation	33%	15%	5%	53%	18%	27%	3%	47%	100%

See accompanying independent auditors' report.

## Schedule 2

**PUBLIC BROADCASTING**  
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Primary Institution Financial Information – KUHT  
Statement of Net Asset Information  
August 31, 2010 and 2009

Assets	2010	2009
Current assets:		
Cash and equivalents	\$ —	—
Accounts receivable, net	480,004	584,560
Due from ACB	543,553	1,058,992
Pledge receivable from ACB	90,000	60,000
Pledge receivable	—	—
Restricted cash and equivalents	—	—
Investments unrestricted for endowment	325,847	304,126
Other current assets	—	—
Total current assets	1,439,404	2,007,678
Noncurrent assets:		
Pledge receivable	—	—
Pledge receivable from ACB	79,722	133,867
Capital assets, net	9,126,250	9,863,453
Film rights, net	63,926	40,674
Investments restricted for endowment	42,323	39,341
Total noncurrent assets	9,312,221	10,077,335
Total assets	10,751,625	12,085,013
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Due to UH System	2,833,983	3,148,460
Due to primary institution	—	—
Pledge payable to primary institution	—	—
Accounts payable	21,685	65,756
Accrued payroll	289,528	272,093
Unearned revenue	—	—
Employees' compensable leave	284,815	310,238
Total current liabilities	3,430,011	3,796,547
Noncurrent liabilities:		
Pledge payable to primary institution	—	—
Total noncurrent liabilities	—	—
Net assets:		
Invested in capital assets	9,126,250	9,863,453
Restricted:		
Expendable for production and outreach programs	—	—
Nonexpendable	42,323	39,341
Unrestricted	(1,846,959)	(1,614,328)
Total net assets	\$ 7,321,614	8,288,466

See accompanying independent auditors' report.

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Primary Institution Financial Information – KUHT

Statement of Revenues, Expenses, and Changes in Net Assets Information

Years ended August 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Contributions	\$ 1,324,894	1,289,240
Contribution grants from ACB	4,095,230	5,008,509
General support from the UH System	2,724,449	2,407,791
Program underwriting	596,382	530,371
Production service	824,464	275,247
Production grants from ACB	167,195	388,260
Corporation for Public Broadcasting grants (CPB)	1,534,073	1,612,951
Other grants	23,068	311,978
Royalties	10,405	109,294
Special events	59,208	96,745
Special events grants from ACB	116,699	107,399
Other grants from ACB	14,576	1,233
Other	36,296	85,770
Total operating revenues	<u>11,526,939</u>	<u>12,224,788</u>
Grants to primary institution	—	—
Programming and production (PRD)	3,775,132	3,521,822
Broadcasting, engineering, and technical (BET)	1,638,621	1,692,661
Occupancy and physical plant operations (BET)	367,275	392,153
Program information (PGM)	622,288	645,178
Fundraising and membership development (FND)	2,116,719	2,105,067
Underwriting and grant solicitation (UND)	237,889	165,503
Management and general (MGT)	968,913	851,198
Institutional support (MGT)	2,357,173	2,015,638
Depreciation	828,412	811,252
Total operating expenses	<u>12,912,422</u>	<u>12,200,472</u>
Operating income (loss)	<u>(1,385,483)</u>	<u>24,316</u>
Interest income	—	—
KUHT insurance recovery	393,929	—
Gain (loss) from endowment	24,702	(65,572)
Total nonoperating income (expense)	<u>418,631</u>	<u>(65,572)</u>
Change in net assets	<u>(966,852)</u>	<u>(41,256)</u>
Net assets, beginning of year	<u>8,288,466</u>	<u>8,329,722</u>
Net assets, end of year	<u>\$ 7,321,614</u>	<u>8,288,466</u>

See accompanying independent auditors' report.

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)  
Primary Institution Financial Information – KUHT  
Schedule of Functional Expenses Information  
Year ended August 31, 2010

Class	Programming and production (PRD)	Broadcasting, engineering, and technical (BET)	Program information (PGM)	Total	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Total	Grand total
Salaries and wages	\$ 842,814	583,056	459,126	1,884,996	547,801	531,631	182,583	1,262,015	3,147,011
Fringe benefits	207,704	141,384	100,116	449,204	143,750	120,700	48,782	313,232	762,436
Financial and legal services	6,600	3,270	965	10,835	103,263	84,914	127	188,304	199,139
Fundraising	11,171	—	6,017	17,188	536,475	413	—	536,888	554,076
Membership fees	264,350	16,475	197	281,022	6,690	31,607	—	38,297	319,319
Other expenses	468,168	4,815	21,728	494,711	52,455	140,698	2,413	195,566	690,277
Postage	2,061	226	1,260	3,547	404,601	2,227	259	407,087	410,634
Printing and reproduction services	16,964	—	3,631	20,595	30,983	611	—	31,594	52,189
Professional services	46,545	39,661	2,364	88,570	33,520	3,555	—	37,075	125,645
Program rights	1,769,508	—	—	1,769,508	10,146	—	—	10,146	1,779,654
Rental and leases	19,417	270,160	14,957	304,534	3,056	3,493	—	6,549	311,083
Repair and maintenance	2,970	195,593	—	198,563	—	2,682	—	2,682	201,245
Supplies and materials	31,483	85,383	5,121	121,987	14,343	31,315	195	45,853	167,840
Telemarketing services	—	—	—	—	178,187	—	—	178,187	178,187
Telephone	31,526	94,023	4,392	129,941	36,164	13,471	1,457	51,092	181,033
Travel	49,670	2,145	2,414	54,229	15,285	1,596	2,073	18,954	73,183
Utilities	—	202,430	—	202,430	—	—	—	—	202,430
Broadcasting fees	4,181	—	—	4,181	—	—	—	—	4,181
	3,775,132	1,638,621	622,288	6,036,041	2,116,719	968,913	237,889	3,323,521	9,359,562
In-kind:									
General support from the System	—	367,275	—	367,275	—	2,357,173	—	2,357,173	2,724,448
Total expenses before depreciation	\$ 3,775,132	2,005,896	622,288	6,403,316	2,116,719	3,326,086	237,889	5,680,694	12,084,010

See accompanying independent auditors' report.

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)  
Primary Institution Financial Information – KUHT  
Schedule of Functional Expenses Information  
Year ended August 31, 2009

Class	Programming and production (PRD)	Broadcasting, engineering, and technical (BET)	Program information (PGM)	Total	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Total	Grand total
Salaries and wages	\$ 856,331	575,516	453,988	1,885,835	540,253	474,900	126,924	1,142,077	3,027,912
Fringe benefits	216,324	159,571	113,311	489,206	136,034	101,325	32,723	270,082	759,288
Financial and legal services	7,891	2,032	149	10,072	89,515	67,490	853	157,858	167,930
Fundraising	—	—	4,763	4,763	456,647	—	100	456,747	461,510
Membership fees	264,139	445	481	265,065	14,745	40,485	—	55,230	320,295
Other expenses	213,546	8,739	25,795	248,080	32,023	96,402	1,581	130,006	378,086
Postage	861	249	1,143	2,253	533,518	2,871	190	536,579	538,832
Printing and reproduction services	66	104	4,073	4,243	17,386	74	52	17,512	21,755
Professional services	46,058	32,546	3,696	82,300	22,889	1,032	67	23,988	106,288
Program rights	1,796,567	—	4,711	1,801,278	11,778	—	—	11,778	1,813,056
Rental and leases	22,457	286,808	18,320	327,585	10,835	11,357	—	22,192	349,777
Repair and maintenance	6,741	109,839	—	116,580	—	2,572	—	2,572	119,152
Supplies and materials	31,593	106,178	7,258	145,029	18,359	35,914	290	54,563	199,592
Telemarketing services	—	—	—	—	125,967	—	—	125,967	125,967
Telephone	28,134	111,385	5,004	144,523	68,117	14,926	1,483	84,526	229,049
Travel	29,277	1,809	2,486	33,572	27,001	1,850	1,240	30,091	63,663
Utilities	—	297,218	—	297,218	—	—	—	—	297,218
Broadcasting fees	1,837	222	—	2,059	—	—	—	—	2,059
	3,521,822	1,692,661	645,178	5,859,661	2,105,067	851,198	165,503	3,121,768	8,981,429
In-kind:									
General support from the System	—	392,153	—	392,153	—	2,015,638	—	2,015,638	2,407,791
Total expenses before depreciation	\$ 3,521,822	2,084,814	645,178	6,251,814	2,105,067	2,866,836	165,503	5,137,406	11,389,220

See accompanying independent auditors' report.

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)  
Primary Institution Financial Information – KUHF  
Statement of Net Asset Information  
August 31, 2010 and 2009

Assets	2010	2009
Current assets:		
Cash and equivalents	\$ —	243,431
Accounts receivable, net	396,004	418,669
Due from ACB	—	63,509
Pledge receivable from ACB	—	—
Pledge receivable	—	—
Restricted cash and equivalents	—	—
Investments unrestricted for endowment	—	—
Other current assets	—	—
Total current assets	396,004	725,609
Noncurrent assets:		
Pledge receivable	—	—
Pledge receivable from ACB	—	—
Capital assets, net	330,448	418,340
Film rights, net	—	—
Investments restricted for endowment	—	—
Total noncurrent assets	330,448	418,340
Total assets	726,452	1,143,949
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Due to UH System	520,896	—
Due to primary institution	—	—
Pledge payable to primary institution	—	—
Accounts payable	5,812	63,428
Accrued payroll	325,445	318,352
Unearned revenue	—	—
Employees' compensable leave	304,896	330,524
Total current liabilities	1,157,049	712,304
Noncurrent liabilities:		
Pledge payable to primary institution	—	—
Total noncurrent liabilities	—	—
Net assets:		
Invested in capital assets	330,448	418,340
Restricted:		
Expendable for production and outreach programs	—	—
Nonexpendable	—	—
Unrestricted	(761,045)	9,805
Total net assets	\$ (430,597)	428,145

See accompanying independent auditors' report.

## Schedule 3

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)

Primary Institution Financial Information – KUHF

Statement of Revenues, Expenses, and Changes in Net Assets Information

Years ended August 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Contributions	\$ 1,223,325	1,536,180
Contribution grants from ACB	2,226,066	1,510,000
General support from the UH System	2,080,539	1,822,761
Program underwriting	2,583,084	3,049,081
Production service	27,813	4,062
Production grants from ACB	—	—
Corporation for Public Broadcasting grants (CPB)	591,249	499,586
Other grants	24,140	19,800
Royalties	109	1,784
Special events	260,348	75,893
Special events grants from ACB	—	—
Other grants from ACB	—	—
Other	5,000	1,444
Total operating revenues	<u>9,021,673</u>	<u>8,520,591</u>
Grants to primary institution	—	—
Programming and production (PRD)	3,638,413	3,276,166
Broadcasting, engineering, and technical (BET)	814,077	885,427
Occupancy and physical plant operations (BET)	141,236	150,193
Program information (PGM)	384,276	417,195
Fundraising and membership development (FND)	1,280,624	1,565,450
Underwriting and grant solicitation (UND)	579,629	361,062
Management and general (MGT)	1,003,325	947,455
Institutional support (MGT)	1,939,304	1,672,568
Depreciation	99,531	83,248
Total operating expenses	<u>9,880,415</u>	<u>9,358,764</u>
Operating income (loss)	<u>(858,742)</u>	<u>(838,173)</u>
Interest income	—	6,787
KUHT insurance recovery	—	—
Gain (loss) from endowment	—	—
Total nonoperating income (expense)	<u>—</u>	<u>6,787</u>
Change in net assets	<u>(858,742)</u>	<u>(831,386)</u>
Net assets, beginning of year	<u>428,145</u>	<u>1,259,531</u>
Net assets, end of year	\$ <u><u>(430,597)</u></u>	<u><u>428,145</u></u>

See accompanying independent auditors' report.

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)  
Primary Institution Financial Information – KUHF  
Schedule of Functional Expenses Information  
Year ended August 31, 2010

Class	Programming and production (PRD)	Broadcasting, engineering, and technical (BET)	Program information (PGM)	Total	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Total	Grand total
Salaries and wages	\$ 1,833,105	216,800	257,567	2,307,472	373,114	462,723	413,446	1,249,283	3,556,755
Fringe benefits	398,447	44,443	64,801	507,691	75,444	98,421	103,486	277,351	785,042
Financial and legal services	265	(243)	483	505	126,656	119,067	6,819	252,542	253,047
Fundraising	2,587	—	20,859	23,446	156,764	449	4,306	161,519	184,965
Membership fees	123,034	—	5	123,039	10,140	11,808	935	22,883	145,922
Other expenses	129,870	3,671	2,608	136,149	51,790	153,791	9,905	215,486	351,635
Postage	1,368	425	1,934	3,727	121,626	132	2,906	124,664	128,391
Printing and reproduction services	522	—	4,882	5,404	85,467	707	545	86,719	92,123
Professional services	110,310	34,592	9,142	154,044	114,917	38,278	25,156	178,351	332,395
Program rights	960,989	—	—	960,989	—	—	—	—	960,989
Rental and leases	—	115,381	14,016	129,397	78,644	15,271	—	93,915	223,312
Repair and maintenance	4,244	98,367	337	102,948	2,640	11,908	—	14,548	117,496
Supplies and materials	13,184	118,200	1,741	133,125	9,753	63,889	215	73,857	206,982
Telemarketing services	—	—	—	—	22,487	—	—	22,487	22,487
Telephone	38,810	19,171	2,562	60,543	36,706	10,895	2,189	49,790	110,333
Travel	17,178	282	3,339	20,799	14,476	2,705	9,721	26,902	47,701
Utilities	4,500	162,988	—	167,488	—	13,281	—	13,281	180,769
Broadcasting fees	—	—	—	—	—	—	—	—	—
	3,638,413	814,077	384,276	4,836,766	1,280,624	1,003,325	579,629	2,863,578	7,700,344
In-kind:									
General support from the System	—	141,236	—	141,236	—	1,939,304	—	1,939,304	2,080,540
Total expenses before depreciation	\$ 3,638,413	955,313	384,276	4,978,002	1,280,624	2,942,629	579,629	4,802,882	9,780,884

See accompanying independent auditors' report.

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)  
Primary Institution Financial Information – KUHF  
Schedule of Functional Expenses Information  
Year ended August 31, 2009

Class	Programming and production (PRD)	Broadcasting, engineering, and technical (BET)	Program information (PGM)	Total	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Total	Grand total
Salaries and wages	\$ 1,575,421	219,002	252,019	2,046,442	426,816	459,997	254,230	1,141,043	3,187,485
Fringe benefits	362,289	58,864	66,009	487,162	106,274	130,582	62,973	299,829	786,991
Financial and legal services	2,556	629	500	3,685	101,447	52,703	6,482	160,632	164,317
Fundraising	10,502	—	17,391	27,893	221,533	987	687	223,207	251,100
Membership fees	131,316	—	25	131,341	3,992	2,360	320	6,672	138,013
Other expenses	68,980	8,806	11,409	89,195	85,084	100,973	12,582	198,639	287,834
Postage	1,169	936	3,391	5,496	267,159	229	362	267,750	273,246
Printing and reproduction services	631	—	2,898	3,529	56,939	1,782	665	59,386	62,915
Professional services	115,238	33,873	1,724	150,835	130,112	56,817	6,372	193,301	344,136
Program rights	961,779	—	—	961,779	—	—	—	—	961,779
Rental and leases	(78,544)	194,077	42,165	157,698	64,455	12,356	24	76,835	234,533
Repair and maintenance	5,893	55,375	—	61,268	422	21,279	—	21,701	82,969
Supplies and materials	31,870	101,872	7,547	141,289	15,795	81,440	607	97,842	239,131
Telemarketing services	—	—	—	—	18,834	—	—	18,834	18,834
Telephone	60,789	22,848	3,934	87,571	43,114	10,192	2,319	55,625	143,196
Travel	26,277	1,993	8,183	36,453	23,474	15,758	13,439	52,671	89,124
Utilities	—	187,152	—	187,152	—	—	—	—	187,152
Broadcasting fees	—	—	—	—	—	—	—	—	—
	3,276,166	885,427	417,195	4,578,788	1,565,450	947,455	361,062	2,873,967	7,452,755
In-kind:									
General support from the System	—	150,193	—	150,193	—	1,672,568	—	1,672,568	1,822,761
Total expenses before depreciation	\$ 3,276,166	1,035,620	417,195	4,728,981	1,565,450	2,620,023	361,062	4,546,535	9,275,516

See accompanying independent auditors' report.

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)  
Component Unit (ACB) Schedule of Functional Expenses Information  
Year ended August 31, 2010

Schedule 4

Class	Grants to primary institution	Programming and production (PRD)	Broadcasting, engineering, and technical (BET)	Program information (PGM)	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Total	Grand total
Financial and legal services	\$ —	—	—	1,015	194,351	75,546	—	269,897	270,912
Fundraising	—	11,171	—	6,580	113,124	—	—	113,124	130,875
Grants to KUHF-FM	2,226,068	—	—	—	—	—	—	—	2,226,068
Grants to KUHT-TV	4,393,700	—	—	—	—	—	—	—	4,393,700
Membership fees	—	135	—	—	16,725	—	—	16,725	16,860
Other expenses	—	478,916	—	16,534	76,752	3,490	—	80,242	575,692
Mail services	—	732	—	548	359,249	18	—	359,267	360,547
Printing and reproduction services	—	16,927	—	738	7,264	840	—	8,104	25,769
Professional services	—	60,306	—	292	61,655	1,346	—	63,001	123,599
Program rights	—	30,310	—	—	—	—	—	—	30,310
Rental and leases	—	8,065	—	—	11,268	—	—	11,268	19,333
Repair and maintenance	—	11,517	—	—	—	633	—	633	12,150
Supplies and materials	—	16,998	1,324	1,565	1,649	3,112	—	4,761	24,648
Telemarketing services	—	—	—	—	167,843	—	—	167,843	167,843
Telephone	—	11,716	—	—	19,943	—	—	19,943	31,659
Travel	—	47,641	—	986	2,441	—	—	2,441	51,068
Total expenses before depreciation	\$ 6,619,768	694,434	1,324	28,258	1,032,264	84,985	—	1,117,249	8,461,033

See accompanying independent auditors' report.

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)  
Component Unit (ACB) Schedule of Functional Expenses Information  
Year ended August 31, 2009

Class	Grants to primary institution	Programming and production (PRD)	Broadcasting, engineering, and technical (BET)	Program information (PGM)	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Total	Grand total
Financial and legal services	\$ —	376	—	1,131	78,941	23,341	—	102,282	103,789
Fundraising	—	3,799	—	—	33,816	—	—	33,816	37,615
Grants to KUHF-FM	1,610,000	—	—	—	—	—	—	—	1,610,000
Grants to KUHT-TV	5,405,401	—	—	—	—	—	—	—	5,405,401
Membership fees	—	—	—	—	41,476	—	—	41,476	41,476
Other expenses	—	179,118	—	—	134,080	7,571	—	141,651	320,769
Mail services	—	420	—	—	537,762	—	—	537,762	538,182
Printing and reproduction services	—	3,481	—	—	7,938	—	—	7,938	11,419
Professional services	—	28,495	—	—	114,174	2,326	—	116,500	144,995
Program rights	—	—	—	—	172,057	—	—	172,057	172,057
Rental and leases	—	13,443	—	—	12,238	—	—	12,238	25,681
Repair and maintenance	—	2,199	—	—	—	—	—	—	2,199
Supplies and materials	—	23,096	—	1,903	7,931	29,244	—	37,175	62,174
Telemarketing services	—	—	—	—	44,825	—	—	44,825	44,825
Telephone	—	28,826	—	—	26,800	—	—	26,800	55,626
Travel	—	32,369	—	—	17,389	—	—	17,389	49,758
Total expenses before depreciation	\$ 7,015,401	315,622	—	3,034	1,229,427	62,482	—	1,291,909	8,625,966

See accompanying independent auditors' report.

**PUBLIC BROADCASTING**  
(A Division of the University of Houston System)

Schedule of Budgetary Comparison

Year ended August 31, 2010

	Budgeted amounts Original	Final	Actual	Variance with final budget favorable (unfavorable)
Operating revenues:				
Contributions	\$ 900,000	900,000	2,548,219	1,648,219
Contributions grants from ACB	6,700,000	6,700,000	6,321,296	(378,704)
General support from the UH System	4,400,000	4,400,000	4,804,988	404,988
Program underwriting	4,190,000	4,190,000	3,179,466	(1,010,534)
Production service	495,000	495,000	852,277	357,277
Production grants from ACB	150,000	150,000	167,195	17,195
Corporation for Public Broadcasting grants (CPB)	1,823,000	1,823,000	2,125,322	302,322
Other grants	500,000	500,000	47,208	(452,792)
Royalties	15,000	15,000	10,514	(4,486)
Special events	707,000	707,000	319,556	(387,444)
Special events grants from ACB	110,000	110,000	116,699	6,699
Other grants from ACB	10,000	10,000	14,576	4,576
Other	94,000	94,000	41,296	(52,704)
Total operating revenues	20,094,000	20,094,000	20,548,612	454,612
Operating expenses:				
Programming and production (PRD)	7,306,208	7,306,208	7,413,545	(107,337)
Broadcasting, engineering, and technical (BET)	2,589,523	2,589,523	2,452,698	136,825
Occupancy and physical plant operations (BET)	—	—	508,511	(508,511)
Program information (PGM)	1,109,664	1,109,664	1,006,564	103,100
Fundraising and membership development (FND)	3,453,537	3,453,537	3,397,343	56,194
Underwriting and grant solicitation (UND)	891,404	891,404	817,518	73,886
Management and general (MGT)	1,706,994	1,706,994	1,972,238	(265,244)
Institutional support (MGT)	—	—	4,296,477	(4,296,477)
Depreciation	927,943	927,943	927,943	—
Total operating expenses	17,985,273	17,985,273	22,792,837	(4,807,564)
Operating gain (loss)	2,108,727	2,108,727	(2,244,225)	(4,352,952)
Nonoperating income (expense):				
KUHT insurance recovery	393,929	393,929	393,929	—
Gain from endowment	—	—	24,702	24,702
Total nonoperating revenues	393,929	393,929	418,631	24,702
Change in net assets	2,502,656	2,502,656	(1,825,594)	(4,328,250)
Fund balance, beginning of year	(2,502,656)	(2,502,656)	8,716,611	11,219,267
Fund balances, end of year	\$ —	—	6,891,017	6,891,017
Capital expenses	\$ 100,000	100,000	102,848	2,848

See accompanying independent auditors' report.

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

**COMMITTEE:** Audit and Compliance

**ITEM:** External Audit Report – Texas Comptroller of Public Accounts Post Payment  
Audit of the University of Houston Clear Lake

**DATE PREVIOUSLY SUBMITTED:**

**SUMMARY:**

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

The Texas State Comptroller's Office audited a sample of payroll, purchase, and travel transactions for the University of Houston Clear Lake during the period beginning June 1, 2009, through May 31, 2010. The purpose of the audit was to determine whether the university's expenditures complied with certain state laws and rules concerning expenditures and with the processing requirements of the uniform statewide accounting system. The audit addressed incorrect payment of longevity pay, freight not on purchase agreement, improper payment of taxes, missing purchasing documentation, purchase order change notice created after invoice, employee retaining abilities to expend funds after termination, and control weakness over expenditure processing. Attached is a brief summary of the report, together with the report cover, transmittal letter, and executive summary. The entire report can be viewed on the Internal Auditing Department's web site @

[http://www.uh.edu/audit/Documents/External\\_Reports/Post%20Payment%20Audit%20UHCL.pdf](http://www.uh.edu/audit/Documents/External_Reports/Post%20Payment%20Audit%20UHCL.pdf)

**SUPPORTING**

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

**FISCAL NOTE:**

**RECOMMENDATION/  
ACTION REQUESTED:** Information

**COMPONENT:** University of Houston System

  
\_\_\_\_\_  
**CHIEF AUDIT EXECUTIVE**

Don Guyton

4/29/11  
**DATE**

  
\_\_\_\_\_  
**CHANCELLOR**

Renu Khator

5/6/11  
**DATE**

Texas Comptroller of Public Accounts  
Post Payment Audit of the University of Houston Clear Lake  
Fiscal Management Division  
Expenditure Audit Section

Scope: The Texas Comptroller's Office audited a sample of payroll, purchase, and travel transactions for the University of Houston Clear Lake during the period beginning June 1, 2009, through May 31, 2010. Their audit of the university revealed the following:

- Incorrect Longevity Payments – four employees were paid an incorrect amount of longevity pay
- Freight Not On Purchase Agreements – freight charges on one transaction were paid even though they were not on the original purchase agreement
- Improper Payment of Taxes – the university paid sales tax to one vendor even though it is tax exempt
- Missing Purchase Documentation – the purchase agreement was not located for one transaction
- Purchase Order Change Notice Created After Invoice – a purchase order was amended after the university received the vendor's invoice
- Employee Retaining Abilities to Expend Funds after Termination – the university failed to notify the Comptroller's Office about the termination of one employee who had been designated by the university to approve its expenditures
- Control Weakness Over Expenditures Processing – the university had one employee that could both process and release expenditures through the Uniform Statewide Accounting System and process and release payrolls without oversight.

The entire report can be viewed on the web site of the UHS Internal Auditing Department @ [http://www.uh.edu/audit/Documents/External\\_Reports/Post%20Payment%20Audit%20UHCL.p  
df](http://www.uh.edu/audit/Documents/External_Reports/Post%20Payment%20Audit%20UHCL.pdf)

**Audit Report # 759-10-01**

# **Post Payment Audit of the University of Houston - Clear Lake**


**Fiscal Management Division  
Expenditure Audit Section**

**April 14, 2011**



**Susan Combs  
Texas Comptroller of Public Accounts**

**Auditor: Raymond McClintock**

<div style="text-align: center;"> <b>S U S A N</b>  <b>C O M B S</b> </div>	<div style="text-align: center;"> <b>TEXAS COMPTROLLER <i>of</i> PUBLIC ACCOUNTS</b>  P.O. Box 13528 • AUSTIN, TX 78711-3528 </div>
	

April 14, 2011

Dr. William Staples  
President  
University of Houston-Clear Lake  
2700 Bay Area Boulevard  
Houston, Texas 77058

Dear Dr. Staples:

We have completed a post-payment audit of certain payroll, purchase, and travel transactions of the University of Houston-Clear Lake (University). A draft of this audit report was sent to the Vice President of Administration and Finance, Dr. Michelle Dotter, on February 23, 2011. Responses to the draft are included within this final report.

We would like to thank your staff, especially Debra Carpenter, Usha Mathew, and Gail Jackson. We appreciate their responsiveness and cooperation in assisting us with this audit.

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

The University must submit to the Texas Comptroller of Public Accounts (Comptroller's office) a corrective action plan that addresses the instances of payment and documentation errors detailed within this report. The plan must provide for appropriate improvements in the control structure related to the University's payment process and show expected dates of implementation. The corrective action plan must be completed and signed by management and internal audit. An electronic copy of the corrective action plan is available upon request. Our office must receive the completed plan by April 29, 2011.

We intend for this report to be used by the University's management and certain state officials and agencies as listed in Tex. Gov't Code Ann. § 403.071 (Vernon Supp. 2010). However, this report is a public record, and its distribution is not limited.

We would like to request input from you or your designee on the quality of the audit process and the service provided by the audit staff while conducting this audit. Please use the following website to provide feedback on the post-payment audit process:

<<https://fm.x.cpa.state.tx.us/fm/survey/audit/>> or if you prefer, a hard copy has been included for your convenience. We greatly appreciate your feedback.

Dr. Staples  
April 14, 2011  
Page two

Thank you for your cooperation. If we can be of further assistance, please contact Raymond McClintock at <raymond.mcclintock@cpa.state.tx.us>, or (800) 531-5441, ext. 3-4859, or direct in Austin at (512) 463-4859. The University may inquire about registering for training related to these findings through the Fiscal Management Training Center Web site at <https://fm.x.cpa.state.tx.us/fmx/training/index.php>.

Sincerely,



Lisa Nance  
Manager  
Statewide Fiscal Services

Enclosure

cc: Carroll Robertson Ray, Chair, Board of Regents, University of Houston System  
Michelle Dotter, Vice President, Administration & Finance, University of Houston-Clear Lake  
Debra Carpenter, Executive Director, Procurement & Payables, University of Houston-Clear Lake  
Keith Martin, Director, University of Houston-Clear Lake  
Don Guyton, Director of Internal Audits, University of Houston Systems  
Raymond McClintock, Auditor, Statewide Fiscal Services, Texas Comptroller of Public Accounts

## EXECUTIVE SUMMARY

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We audited a stratified random sample of payroll, purchase, and travel transactions that processed through USAS during the period beginning June 1, 2009, through May 31, 2010. We also conducted a limited review of payroll deductions and library book transactions. We reviewed each transaction in the sample to determine compliance with applicable state laws. The report includes a projection of the payment errors to estimate the amount of improperly paid transactions in the population. Documentation errors and errors identified outside our sample are actual amounts and are not projected.

We believe the audit provides a reasonable basis for the findings set forth in the attached report. The University should implement the recommendations listed in the Detailed Findings of this report. It is the University's responsibility to seek refunds for all overpayments, unless it determines it is not cost effective to do so. If necessary, the Texas Comptroller of Public Accounts (Comptroller's office) may take the actions set forth in Tex. Gov't Code Ann., §403.071(h) (Vernon Supp. 2010) to ensure that the University's documents comply in the future. The University must ensure that the findings discussed in this report are resolved.

### Overall Conclusion:

Our audit of the University revealed the following:

- Incorrect Longevity Payment
- Freight Not On Purchase Agreement
- Improper Payment of Taxes
- Missing Purchasing Documentation
- Purchase Order Change Notice Created After Invoice
- Employee Retaining Abilities to Expend Funds After Termination
- Control Weakness Over Expenditure Processing

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

The appendices to this report provide schedules of the errors identified except for payroll schedules, which are not included due to confidentiality issues.

### Follow up to Prior Audit:

We issued a prior post-payment audit of the University's payroll, purchase, and travel transactions on April 10, 2006. From this audit, incorrect payment of longevity pay, missing purchase order documentation, and control weakness over expenditure processing are recurring issues identified in the previous audit.

### Expanded Summary of Findings:

**PAYROLL** We reviewed payroll transactions for compliance with the General Appropriations Act (GAA), the *State of Texas Payroll Policies and Procedures Guide (Payroll Guide)*, and other pertinent statutes. In our review of the payroll transactions, we identified four incorrect payments of longevity pay.

## EXECUTIVE SUMMARY

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**PURCHASE** We reviewed purchase transactions for compliance with the GAA, *eXpendit*<sup>1</sup>, and other pertinent statutes. In our review of the purchase transactions, we identified the following: one instance where freight was not on the purchase order, one transaction including improper payment of taxes, one payment missing adequate purchase documentation, and a purchase order change notice created after invoice.

We also selected a limited number of library book purchases from our purchase group as a separate sample for review of library book purchases. We did not identify any issues from our limited review of the library book transactions.

**TRAVEL** We reviewed travel transactions for compliance with the GAA, *Textravel*, and other pertinent statutes. We did not identify any issues from our review of travel transactions.

**SECURITY** We reviewed the University's voucher signature cards and electronic approval security effective during our audit period. The security review entailed identifying any employees with security in USAS, or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, the University must observe certain deadlines so that security is revoked in a timely manner. The University failed to ensure that the Comptroller's office received notification in a timely manner about the termination of one employee listed on the University's signature cards.

We also reviewed the University's internal control structure. Our review was limited to obtaining an understanding of the University's controls sufficient to plan our audit and did not include tests of control policies and procedures. The University designated two employees with multiple security capabilities.

**STATE PROPERTY ACCOUNTING SYSTEM (SPA)** We selected a limited number of fixed assets acquired by expenditures during our audit period to test for accurate reporting in SPA and to verify existence of the assets. We were able to locate all assets and verified the recording of the assets in SPA. During the audit period, the University reported six assets as missing or stolen.

**Contact**  
Raymond McClintock  
(512) 463-4859

**Contributing Auditors**  
Tammy Koenings  
Derik Montique

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<sup>1</sup> Effective Aug. 27, 2010, *eXpendit*, replaces the *State of Texas Purchase Policies and Procedures Guide*. The Internal Audit guidelines are located on the FMX Web site: <https://fmxcpa.state.tx.us/fm/pubs/purchase/index.php>.

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

**COMMITTEE:** Audit and Compliance

**ITEM:** State Auditor Reports

- SAO Report 11-318, Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2010
- SAO Report 11-555, Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010

**DATE PREVIOUSLY SUBMITTED:**

**SUMMARY:**

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

Attached is a listing of key points in these two reports together with excerpts from the two reports as they related to UHS components

**SUPPORTING**

**DOCUMENTATION:**

External Audit Reports

- SAO Report 11-318, Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2010 (excerpts)
- SAO Report 11-555, Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010 (excerpts)

**FISCAL NOTE:**

**RECOMMENDATION/  
ACTION REQUESTED:**

Information

**COMPONENT:**

University of Houston System

  
CHIEF AUDIT EXECUTIVE

Don Guyton

4/29/11  
DATE

  
CHANCELLOR

Renu Khator

5/6/11  
DATE

State Auditor Reports  
Key Points

**#11-318 – Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2010**

Schedule of Findings and Questioned Costs

UH

- 1) Improvements needed in access controls in the financial aid system (reference #11-150, #11-151, #11-152, #11-153, #11-154, #11-155, #11-156, #11-157) (**Action Completed**)
- 2) Research accounting personnel need to be more diligent in their review of support for cash draws (reference #11-150) (**Action Completed**)
- 3) Improvements needed in more timely reporting of Pell disbursements to the Department of Education (reference #11-151) (**Action Completed**)
- 4) Improvements needed in verifying all required information on the application for federal student aid (reference #11-152) (**Action Completed**)
- 5) Improvements needed in procedures for returning Title IV funds in a timely manner and in accordance with federal regulations (reference #11-153) (**Action Completed**)
- 6) Improvements needed in reporting all student status changes to National Student Loan Data System in a timely manner (reference #11-154) (**Action Completed**)
- 7) Improvements needed in reporting Direct Loan disbursement records and disbursement dates to the Common Origination and Disbursement System within the required time frames (reference #11-155) (**Action Completed**)
- 8) Improvements needed in retaining documentation of contractor selection and verifying that vendors are not suspended or debarred or otherwise excluded from federal contracts (reference #11-156) (**Action Completed**)
- 9) Improvements needed in notifying subrecipients of required Recovery Act information at the time it disburses funds to subrecipients (#11-157) (**Action Completed**)

UHD

- 10) Improvements needed in segregation of duties in the financial aid application, database, and servers (reference #11-158, #11-159) (**Action Partially Completed: Estimated completion date: April 26, 2011**)
- 11) Improvements needed in procedures to help ensure that cost of attendance budgets within the financial aid application contain sufficient detail to verify cost of attendance for part-time students (reference #11-158) (**Action Completed**)
- 12) Improvements needed in loan disbursement procedures to help ensure that loan funds are disbursed to students within three business days of receipt from the lender (reference #11-159) (**Action Completed**)
- 13) Improvements needed in procedures for reviewing NSLDS financial assistance history for mid-year transfer students to help ensure documentation of review is maintained (reference #11-159) (**Action Completed**)
- 14) Improvements needed in reporting disbursement dates to the Common Origination and Disbursement System within the required time frames (reference #11-159) (**Action Completed**)

UHV

- 15) Improvements needed in access controls in the financial aid system (reference #11-160) **(Action Completed)**
- 16) Improvements needed in procedures for recalculating cost of attendance when a student's enrollment status changes (reference #11-160) **(Action Completed)**

Follow-up on Previous Year Findings

UH

- 17) Procedures for reporting Pell disbursement records to the U.S. Department of Education's Common Origination and Disbursement System (reference #10-94) – reissued – see “3)” above **(Action Completed)**
- 18) Written verification procedures (reference #10-95) – reissued – see “4)” above **(Action Completed)**
- 19) Disbursement notifications – corrective action taken (reference #10-96)
- 20) Returning Title IV funds (reference #10-97) – reissued – see “5)” above **(Action Completed)**
- 21) Reporting student status changes (reference #10-98) – reissued – see “6)” above **(Action Completed)**

UHCL

- 22) Student Status Change Procedures – corrective action taken (reference #10-99)

UHD

- 23) Disbursement Notification Procedures – corrective action taken (reference #07-60)

UHV

- 24) Procedures for Pell payment reporting, disbursement notifications and transfer student monitoring– corrective action taken (reference #08-75)

**#11-555 – State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010**

UH

- 1) Incorrectly classified expenditures between federal programs in the Schedule of Expenditures of Federal awards (reference #11-555-26) **(Action Completed)**

UHD

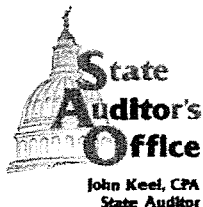
- 1) Incorrectly classified expenditures between federal programs in the Schedule of Expenditures of Federal awards (reference #11-555-26) **(Action Completed)**

FEDERAL PORTION OF THE STATEWIDE SINGLE AUDIT  
REPORT FOR THE FISCAL YEAR ENDED AUGUST 31, 2010

# TEXAS



TEXAS STATE AUDITOR'S OFFICE  
JOHN KEEL, CPA



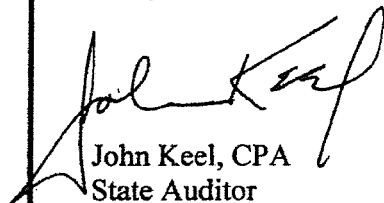
## INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable Rick Perry, Governor  
The Honorable Susan Combs, Comptroller of Public Accounts  
The Honorable David Dewhurst, Lieutenant Governor  
The Honorable Joe Straus, Speaker of the House of Representatives  
and  
Members of the Legislature, State of Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of and for the year ended August 31, 2010, and have issued our report thereon dated February 18, 2011.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

As described in Note 1 to the Schedule of Expenditures of Federal Awards, the Schedule of Expenditures of Federal Awards does not include expenditures of federal awards for six component units of the State of Texas. Each of those component units has its own independent audit in compliance with OMB Circular A-133.



John Keel, CPA  
State Auditor

February 18, 2011

Robert E. Johnson Building  
1501 N. Congress Avenue  
Austin, Texas 78701

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Internal Audit 5/18/11

4 of 62

**Independent Auditors' Reports**  
Federal Portion of  
Statewide Single Audit Report  
For the Year Ended August 31, 2010

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<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Department of Public Safety	Homeland Security Cluster	Subrecipient Monitoring	11-111
	Public Assistance Cluster	Subrecipient Monitoring Special Tests and Provisions	11-115
Texas State University – San Marcos	Student Financial Assistance Cluster	Special Tests and Provisions	11-133
Department of Transportation	Highway Planning and Construction Cluster	Procurement and Suspension and Debarment	11-144
	Highway Planning and Construction Cluster – ARRA	Subrecipient Monitoring Special Tests and Provisions	
	Highway Planning and Construction Cluster	Special Tests and Provisions	11-146

In our opinion, based on our report and the reports of other auditors, because of the effects of the noncompliance described in the preceding paragraph, the State did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on:

- SNAP Cluster (with ARRA)
- Homeland Security Cluster

Also, in our opinion, based on our audit and the reports of other auditors, except for the noncompliance described in the previous two paragraphs, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended August 31, 2010. However, the results of our auditing procedures and the reports of other auditors also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items:

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Department of Aging and Disability Services	Aging Cluster – ARRA	Subrecipient Monitoring	11-01
Department of Assistive and Rehabilitative Services	Vocational Rehabilitation Cluster	Eligibility	11-03
	Vocational Rehabilitation Cluster – ARRA		
	Vocational Rehabilitation Cluster – ARRA	Procurement and Suspension and Debarment	11-04
Department of Family and Protective Services	CFDA 93.659 – Adoption Assistance	Eligibility	11-06
	CFDA 93.659 – Adoption Assistance – ARRA		



<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Texas Tech University	Student Financial Assistance Cluster	Reporting	11-135
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			11-137
			11-138
Texas Tech University Health Sciences Center	Research and Development Cluster		11-139
		Activities Allowed or Unallowed	11-140
		Allowable Costs/Cost Principles	
		Cash Management	
Department of Transportation	Highway Planning and Construction Cluster	Period of Availability of Federal Funds	
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		Reporting	11-147
		CFDA 20.106 – Airport Improvement Program – ARRA	
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			11-151



<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
University of Houston	Research and Development Cluster	Activities Allowed or Unallowed	11-156
	Research and Development Cluster – ARRA	Allowable Costs/Cost Principles Cash Management Period of Availability of Federal Funds Procurement and Suspension and Debarment	
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University of Houston – Victoria	Student Financial Assistance Cluster	Eligibility Special Tests and Provisions	11-160
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A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We and the other auditors consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs and items listed below to be significant deficiencies:

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Department of Assistive and Rehabilitative Services	Vocational Rehabilitation Cluster Vocational Rehabilitation Cluster – ARRA	Eligibility	11-03
Department of Family and Protective Services	CFDA 93.658 – Foster Care – Title IV-E CFDA 93.659 – Adoption Assistance CFDA 93.667 – Social Services Block Grant TANF Cluster TANF Cluster – ARRA	Allowable Costs/Cost Principles	11-05
	CFDA 93.659 – Adoption Assistance CFDA 93.659 – Adoption Assistance – ARRA	Eligibility	11-06
	CFDA 93.658 – Foster Care – Title IV-E CFDA 93.658 – Foster Care – Title IV-E – ARRA	Eligibility	11-07
Health and Human Services Commission	CFDA 93.767 - Children's Health Insurance Program	Eligibility	11-11
	CFDA 93.667 – Social Services Block Grant CFDA 93.767 – Children's Health Insurance Program Medicaid Cluster Medicaid Cluster – ARRA TANF Cluster	Allowable Costs/Cost Principles Period of Availability of Federal Funds	11-12
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<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Texas Tech University Health Sciences Center	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management Period of Availability of Federal Funds Procurement and Suspension and Debarment	11-140
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<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
University of Houston	Research and Development Cluster	Activities Allowed or Unallowed	11-156
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**Schedule of Findings and Questioned Costs**

Federal Portion of  
Statewide Single Audit Report

For the Year Ended August 31, 2010

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University of Houston
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Reference No. 11-150

**Cash Management****Activities Allowed or Unallowed****Eligibility****Period of Availability of Federal Funds****Special Tests and Provisions - Separate Funds****Special Tests and Provisions - Disbursements To or On Behalf of Students****Student Financial Assistance Cluster****Award year - July 1, 2009 to June 30, 2010**

**Award numbers - CFDA 84.007 P007A094166, CFDA84.033 P033A084166 and P033A094166, CFDA 84.063 P063P072333 and P063P092333, CFDA 84.268 P268K102333, CFDA 84.375 P375A092333, CFDA 84.376 P376S092333, and CFDA 84.379 P379T102333**

**Type of finding - Significant Deficiency**Cash Management

The U.S. Department of Education provides financial assistance funds to institutions under the advance, just-in-time, reimbursement, or cash monitoring payment methods. The advance payment method permits institutions to draw down financial assistance funds prior to disbursing funds to eligible students and parents. The institution's request for funds must not exceed the amount immediately needed to disburse funds to students or parents. A disbursement of funds occurs on the date an institution credits a student's account or pays a student or parent directly with either student financial assistance funds or its own funds. The institution must make the disbursements as soon as administratively feasible, but no later than three business days following the receipt of funds. Any amounts not disbursed by the end of the third business day are considered to be excess cash and generally are required to be promptly returned to the U.S. Department of Education. If an institution maintains excess cash for more than seven calendar days, the Secretary of the U.S. Department of Education may take actions such as requiring the institution to reimburse the Secretary for the costs incurred, or providing funds to the institution under the reimbursement payment method or the cash monitoring payment method described in Title 34, Code of Federal Regulations, Section 668.166.

Questioned Cost: \$ 0

U.S. Department of Education

**For 2 (4 percent) of 50 cash draws tested, the University of Houston's (University) request exceeded the amount it immediately needed to disburse funds to students for the specific awards tested. In addition, for 1 (2 percent) of 50 draws tested, the adjustment the University requested from the U.S. Department of Education was not supported by disbursements for the specific award tested.** For these draws, the University requested payments or adjustments in the federal system for the incorrect federal award numbers, although supporting documentation of related disbursements reflected the correct award numbers. All draws tested had evidence of University review and approval, however this control did not prevent the errors identified. The University subsequently identified and corrected all errors prior to auditors' testing. These errors did not cause the University's cumulative draws to exceed expenditures when aggregating all federal awards.

Other Compliance Requirements

Although the general controls weaknesses described below apply to activities allowed or unallowed, eligibility, period of availability of federal funds, special tests and provisions - separate funds, and special tests and provisions - disbursements to or on behalf of students, auditors identified no compliance issues regarding these compliance requirements.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The University did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system.** The University of Houston System (System) is responsible for granting access to that system. A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users. The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

Recommendations:

The University should:

- Ensure that its drawdowns of Title IV funds reflect the award numbers for which it disbursed funds to students.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

Management Response and Corrective Action Plan: -

Cash Management

*Research Accounting will continue to utilize reconciliation and review procedures to help ensure the accuracy of all cash draws, including identification and correction of errors. We have informed our Research Accounting personnel of the importance of their responsibilities for adequately reviewing the support for all such transactions.*

Implementation Date: January 2011

Responsible Person: Karin Livingston

General Controls:

*We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.*

Implementation Date: June 10, 2010

Responsible Persons: Katina McGhee and Keith Martin

## UNIVERSITY OF HOUSTON

Reference No. 11-151

### Reporting

(Prior Audit Issues 10-94 and 09-83)

#### Student Financial Assistance Cluster

Award year- July 1, 2009 to June 30, 2010

Award numbers - CFDA 84.007 P007A094166, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A094166, CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P092333, CFDA 84.268 P268K102333, CFDA 84.375 P375A092333, CFDA 84.376 P376S092333, and CFDA 84.379 P379T102333

Type of finding - Significant Deficiency and Non-Compliance

#### Common Origination and Disbursement System Reporting

Institutions submit Pell origination records and disbursement records to the U.S. Department of Education's Common Origination and Disbursement (COD) System. The disbursement record reports the actual disbursement date and the amount of the disbursement. Institutions must report student payment data within 30 calendar days after they make a payment or become aware of the need to make an adjustment to previously reported student payment data or expected student payment data (Office of Management and Budget (OMB) Compliance Supplement A-133, Part 5, Student Financial Assistance Cluster, III.L.1.f (page 5-3-19)). The disbursement amount and date in the COD System should match the disbursement date and amount in students' accounts or the amount and date the funds were otherwise made available to students (OMB Compliance Supplement, A-133, Part 5, Student Financial Assistance Cluster, III.N.3 (page 5-3-30)).

Questioned Cost: \$ 0

U.S. Department of Education

**For 6 (12 percent) of 50 students tested, the University of Houston (University) did not report the Pell disbursement to the COD System within 30 days of disbursement.** These disbursements occurred on or between August 24, 2009, and September 16, 2009. The University did not submit a batch file to the COD System for these dates. The University discovered the oversight and submitted the disbursements to the COD System on October 20, 2009 or October 21, 2009.

#### General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The University did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system.** The University of Houston System (System) is responsible for granting access to that system. A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users. The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

#### Recommendations:

The University should:

- Submit Pell disbursement reports to the COD System within the required 30-day time frame.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

Management Response and Corrective Action Plan:

Pell Reporting:

*We have updated our policies and procedures to report Pell disbursements in a timely manner in accordance with Federal regulation. The actual disbursement date will be reported to the COD system. We are in the process of hiring additional staff to ensure that we process and report Pell in accordance with Federal regulations and requirements.*

Implementation Date: August 2010

Responsible Person: Izzy Anderson

General Controls:

*We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.*

Implementation Date: June 10, 2010

Responsible Persons: KatinaMcGhee and Keith Martin

Reference No. 11-152

**Special Tests and Provisions - Verification**

(Prior Audit Issue - 10-95)

**Student Financial Assistance Cluster**

Award year - July 1, 2009 to June 30, 2010

Award numbers - CFDA 84.007 P007A094166, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A094166, CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P092333, CFDA 84.268 P268K102333, CFDA 84.375 P375A092333, CFDA 84.376 P376S092333, and CFDA 84.379 P379T102333

Type of finding - Significant Deficiency and Non-Compliance

Verification

An institution shall require each applicant whose Free Application for Federal Student Aid (FAFSA) is selected for verification on the basis of edits specified by the Secretary of the U.S. Department of Education to verify all of the applicable items, which include household size; number of household members who are in college; adjusted gross income (AGI); U.S. income tax paid; and certain types of untaxed income and benefits such as Social Security benefits, child support, individual retirement account and Keogh account deductions, foreign income exclusion, earned income credit, and interest on tax-free bonds (Title 34, Code of Federal Regulations, Section 668.56).

Questioned Cost: \$ 0  
U.S. Department of Education

**The University of Houston (University) did not verify all required information on selected FASFAs in accordance with federal regulations.** For 3 (6 percent) of 50 students tested, the University did not correctly update its records and the *Institutional Student Information Record* (ISIR). Specifically:

- For 1 student tested, the University did not correctly update its records and the ISIR to reflect information on the household members enrolled at least half-time in college; however, the student's eligibility was not affected by this error.
- For 1 student tested, the University did not correctly update its records and the ISIR to reflect information on the parent's untaxed income and benefits. Auditors could not determine whether the student's financial assistance was affected because the University stated it no longer had the ability to make corrections to the student's financial assistance.
- For 1 student tested, the University did not correctly update its records and the ISIR to reflect information on the student's adjusted gross income; however, the student's eligibility was not affected by this error.

**The University does not have an adequate process to monitor verification.** Without an adequate process to detect non-compliance and take appropriate and timely action to address issues, the University risks over awarding financial assistance.

#### General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The University did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system.** The University of Houston System (System) is responsible for granting access to that system. A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users. The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

#### Recommendations:

The University should:

- Implement controls to correctly update its records and ISIR after verifying FAFSA information.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

#### Management Response and Corrective Action Plan:

##### Verification:

*We have updated our policies and procedures to correctly update records requiring verification of FAFSA information. We have hired and trained additional staff within the quality control unit for improving quality and accuracy of data by monitoring verifications to eliminate risk of errors.*

*Implementation Date: December 2010*

*Responsible Person: Candida DuBose*

General Controls:

*We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.*

*Implementation Date: June 10, 2010*

*Responsible Persons: Katina McGhee/Keith Martin*

Reference No. 11-153

**Special Tests and Provisions - Return of Title IV Funds**

(Prior Audit Issues 10-97 and 09-86)

**Student Financial Assistance Cluster**

**Award year - July 1, 2009 to June 30, 2010**

**Award numbers - CFDA 84.007 P007A094166, CFDA 84.032 Award Number Not Applicable, CFDA 84.063 P063P092333, CFDA 84.268 P268K102333, CFDA 84.375 P375A092333, CFDA 84.376 P376S092333, and CFDA 84.379 P379T102333**

**Type of finding - Significant Deficiency and Non-Compliance**

Return of Title IV Funds

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV assistance earned by the student as of the student's withdrawal date (Title 34, Code of Federal Regulations, Section 668.22(a)(1)). If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is more than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (Title 34, Code of Federal Regulations, Sections 668.22(a)(1)-(4)).

Questioned Cost: \$ 0

U.S. Department of Education

Returns of Title IV funds are required to be deposited or transferred into the student financial aid account, or electronic fund transfer must be initiated to the U.S. Department of Education or the appropriate Federal Family Education Loan Program (FFELP) lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew (Title 34, Code of Federal Regulations, Section 668.173(b)).

**For 9 (18 percent) of 50 students tested, the University of Houston (University) did not return the correct amount of Title IV funds. Specifically:**

- For eight students, the University erroneously used nine days instead of eight days for Spring break in its computation of the enrollment period.
- For one student, the University used an incorrect withdrawal date in its return calculation, resulting in an incorrect determination that it did not need to return any funds. Based on the correct withdrawal date, the University should have returned \$1,307.

As a result of these nine errors, the University and the affected students returned \$1,212 more in Title IV funds than was required. The Spring break calculation error affected all 104 students with an official withdrawal that required a return of funds in Spring 2010.

**Additionally, the University did not consistently return Title IV funds in a timely manner.** Specifically:

- For all 28 unofficial withdrawals tested, the University did not determine the withdrawal date within 30 days of the end of enrollment period as required. The University explained that it delayed running the query it uses to identify unofficial withdrawals after the end of the term until all student grades were posted. One of the colleges within the University posts grades significantly later than other colleges. The University has revised its procedures to account separately for the grading policy of this college in its query for unofficial withdrawals.
- For 2 (6 percent) of 36 students tested for whom the University was required to return Title IV funds, the funds were not returned within 45 days after the date the University determined that the students withdrew.

#### General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The University did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system.** The University of Houston System (System) is responsible for granting access to that system. A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users. The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

#### Recommendations:

The University should:

- Implement controls to ensure that it completes returns of Title IV funds in a timely manner and in accordance with federal regulations.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

#### Management Response and Corrective Action Plan:

##### Return of Title IV Funds:

*We have reviewed all records for the 2009-2010 award year to identify all students for whom return of Title IV funds were required. Policies and Procedures for all Return of Title IV withdrawals have been updated to require that all official withdrawals will be reviewed weekly and funds will be returned (where necessary) within 21 business days. For unofficial withdrawals, returns will be processed within three weeks of the end of the enrollment period. This is to ensure the returns are within the required timeframe as set by the federal guidelines. We have reviewed our policies and procedures to address the federal requirements, regulations and timeliness.*

Implementation Date: August 2010

Responsible Person: Candida DuBose

General Controls:

*We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.*

Implementation Date: June 10, 2010

Responsible Persons: Katina McGhee  
Keith Martin

Reference No. 11-154

**Special Tests and Provisions - Student Status Changes**

(Prior Audit Issues 10-98, 09-87, 08-74 and 07-58)

**Student Financial Assistance Cluster**

Award year - July 1, 2009 to June 30, 2010

Award numbers - CFDA 84.007 P007A094166, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A094166, CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P092333, CFDA 84.268 P268K102333, CFDA 84.375 P375A092333, CFDA 84.376 P376S092333, and CFDA 84.379 P379T102333

Type of finding - Significant Deficiency and Non-Compliance

Student Status Changes

Unless an institution expects to submit its next student status confirmation report to Secretary of the U.S. Department of Education or the guaranty agency within the next 60 days, it must notify the guaranty agency or lender within 30 days, if it (1) discovers that a Stafford, Supplemental Loan for Students (SLS), or Parent Loans for Undergraduate Students (PLUS) has been made to or on behalf of a student who enrolled at that institution, but who has ceased to be enrolled on at least a half-time basis; (2) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that institution, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (3) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (4) discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address (Title 34, Code of Federal Regulations, Section 682.610(c)).

Questioned Cost: \$ 0  
U.S. Department of Education

The University of Houston (University) uses the services of the National Student Clearinghouse (NSC) to report status changes to the National Student Loan Data System (NSLDS). Under this arrangement, the University reports all students enrolled and their status to NSC, regardless of whether those students receive federal financial assistance. NSC then identifies any changes in status and reports those changes when required to the respective lenders and guarantors. Additionally, NSC completes the roster file on the University's behalf and communicates status changes to NSLDS as applicable. Although the University uses the services of NSC, it is still ultimately the University's responsibility to submit timely, accurate, and complete responses to roster files and to maintain proper documentation (*NSLDS Enrollment Reporting Guide*, Chapter 1.3.3.1).

For 4 (8 percent) of 50 student status changes tested, the University did not report the status change to NSLDS. For an additional 8 student status changes tested, the University did not report the status change to NSLDS within the required 60-day time frame. For 7 of these 8 status changes, the University reported an incorrect effective date to NSLDS. All of the students affected either officially or unofficially withdrew from the University.

**The University does not have an adequate process to report enrollment status to NSLDS for withdrawn students.** Specifically, the University did not follow its written procedures for reporting students who unofficially withdrew. In addition, the University believes there may be an error in the programming logic used to extract and report students who officially withdrew from the University. Without an adequate process to ensure accurate and timely reporting, the University is not able to detect non-compliance and take appropriate and timely action to address issues. Inaccurate and delayed information affects determinations made by lenders, servicers of student loans related to in-school status, deferments, grace periods, and repayment schedules, as well as the federal government's payment of interest subsidies.

#### General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The University did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system.** The University of Houston System (System) is responsible for granting access to that system. A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users. The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

#### Recommendations:

The University should:

- Report all student status changes accurately to NSLDS within the required time period.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

#### Management Response and Corrective Action Plan:

##### Student Status Changes:

*We have implemented procedures to ensure that student status changes are identified and reported to NSLDS and the lender / guarantors within the required time period. As a quality control, the Office of Scholarships and Financial Aid will report an enrollment change to NSLDS for any student receiving Title IV aid and who has officially withdrawn from the University. Additional measures have been implemented to ensure more accurate and timely reporting to NSLDS.*

Implementation Date: December 2010

Responsible Persons: Debbie Hermann and Jessica Thomas

*We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.*

Implementation Date: June 10, 2010

Responsible Persons: Katina McGhee and Keith Martin

Reference No. 11-155

**Special Tests and Provisions - Borrower Data Transmission and Reconciliation (Direct Loan)**

**Student Financial Assistance Cluster**

Award year - July 1, 2009 to June 30, 2010

Award numbers - CFDA 84.007 P007A094166, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A094166, CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P092333, CFDA 84.268 P268K102333, CFDA 84.375 P375A092333, CFDA 84.376 P376S092333, and CFDA 84.379 P379T102333

Type of finding - Significant Deficiency and Non-Compliance

Direct Loan Reporting

Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the Common Origination and Disbursement (COD) System within 30 days of disbursement (Office of Management and Budget No. 1845-0021). Each month, the COD System provides institutions with a School Account Statement (SAS) data file that consists of cash summary, cash detail, and (optional at the request of the institution) loan detail records. The institution is required to reconcile these files to the institution's financial records. Up to three Direct Loan program years may be open at any given time; therefore, institutions may receive three SAS data files each month (Title 34, Code of Federal Regulations, Sections 685.102(b), 685.301, and 685.303).

Questioned Cost: \$ 0

U.S. Department of Education

**For 4 (8 percent) of 50 students tested, the University of Houston (University) reported an incorrect disbursement date to the COD System.** In all four cases, the errors were a result of the University reporting an anticipated date to the COD System, rather than an actual date.

**Additionally, for 3 (6 percent) of 50 students tested, the University did not report the disbursement to the COD System within 30 days of the disbursement.** It reported one disbursement to the COD System as a pending disbursement, and it did not correct that until it made a manual correction 78 days later. For the other two disbursements, the delay was a result of a University oversight in submitting the disbursement record.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

The University did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system. The University of Houston System (System) is responsible for granting access to that system. A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users. The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

Recommendations:

The University should:

- Report actual disbursements dates to the COD System and report Direct loan disbursement records within the required time frames.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

Management Response and Corrective Action Plan:

Direct Loan Reporting:

*We have updated policies and procedures to report direct loan disbursements in a timely manner in accordance with Federal regulation. The actual disbursement date will be reported to the COD system. The loan unit has also hired additional staff to ensure the University processes and reports direct loans to the COD system in accordance with Federal regulations and requirements.*

Implementation Date: January 2011

Responsible Person: Lear Hickman

General Controls:

*We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.*

Implementation Date: June 10, 2010

Responsible Persons: Katina McGhee and Keith Martin

Reference No. 11-156

**Activities Allowed or Unallowed**

**Allowable Costs/Cost Principles**

**Cash Management**

**Period of Availability of Federal Funds**

**Procurement and Suspension and Debarment**

**Research and Development Cluster**

**Research and Development Cluster - ARRA**

**Award years - September 1, 2009 to August 31, 2010, August 1, 2009 to July 31, 2010, August 1, 2009 to July 31, 2010, October 1, 2009 to September 30, 2010, and September 1, 2009 to August 31, 2010**

**Award numbers - CFDA 47.070 IIS-0712941, CFDA 84.305 R305A050056, CFDA 93.701 1 R01 EY018165-01A1 (ARRA), CFDA 84.359 2472, and CFDA 93.701 3R01EY013175-07S2 (ARRA)**

**Type of finding - Significant Deficiency and Non-Compliance**

#### Limited Competition

Title 2, Code of Federal Regulations (CFR), Section 215, establishes uniform administrative requirements for federal grants and agreements awarded to institutions of higher education. Title 2, CFR, Section 215.46, requires that procurement records and files include the following at a minimum: (1) basis for contractor selection; (2) justification for lack of competition when competitive bids or offers are not obtained; and (3) basis for award cost or price.

Questioned Cost: \$ 30,000

National Science Foundation  
U.S. Department of Education  
National Eye Institute

**For 1 (2 percent) of 48 procurements with limited competition that auditors tested, the University of Houston (University) did not document an adequate basis for contractor selection.** The University filled out and retained a sole source justification form, but that form stated that the reason for limited competition was that the contract was competitively bid at the principal investigator's (PI) previous institution. The University did not obtain documents from the PI's previous institution supporting the PI's assertion. The University paid \$30,000 to the contractor. This award was from the National Science Foundation.

#### Suspension and Debarment

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, CFR, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed \$25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, CFR, Sections 180.220 and 180.970).

**For 4 (15 percent) of 26 covered transactions that auditors tested, the University did not verify that the vendor was not suspended or debarred from federal procurements.** Auditors reviewed the EPLS and determined that none of the four vendors was suspended or debarred from federal procurements. For two of these transactions, the University did not perform the verification because the department that prepared the procurements had not established suspension and debarment procedures for federally funded procurements. For the other two transactions, the University did not perform the verification because it had not established suspension and debarment verification procedures for procurements made with American Recovery and Reinvestment Act (Recovery Act) funds. The lack of suspension and debarment procedures affected all four procurements made with Recovery Act funds during the fiscal year for which the University was required to verify suspension and debarment status.

#### Other Compliance Requirements

Although the general controls weaknesses described below apply to activities allowed or unallowed, allowable costs/cost principles, cash management, and period of availability of federal funds, auditors identified no compliance issues regarding these compliance requirements.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The University did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system.** The University of Houston System (System) is responsible for granting access to that system. **A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users.** The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

Recommendations:

The University should:

- Obtain and retain all documentation required to provide an adequate basis for contractor selection.
- Establish procedures for all departments that prepare federally funded procurements to ensure that, when the University enters into a covered transaction, the University verifies that the entity is not suspended or debarred or otherwise excluded from federal contracts.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

Management Response and Corrective Action Plan:

Limited Competition

*The Controller will modify the University of Houston procurement policy for all purchases over \$5,000, including purchases for grants transferred from other institutions, to require that documentation be obtained and retained that substantiates (a) basis for contractor selection; (b) justification for lack of competition when competitive bids or offers are not obtained; and (c) basis for award cost or price.*

Implementation Date: March 1, 2011

Responsible Person: Mike Glisson

Suspension and Debarment

*The Division of Research will implement procedures to verify that prospective subrecipients to a federal grant are not suspended, debarred, or otherwise excluded from federal contracts, regardless of the dollar amount of the subrecipient award. In addition, the Controller will modify the University of Houston procurement policy to require verification that a prospective vendor/contractor that will be paid in part with federal funds for a procurement contract that is expected to equal or exceed \$25,000 is not suspended, debarred, or otherwise excluded from federal contracts.*

Implementation Date: March 1, 2011

Responsible Persons: Beverly Rymer and Mike Glisson

General Controls

*We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.*

*Implementation Date: June 20, 2010*

*Responsible Persons: Katina McGhee and Keith Martin*

Reference No. 11-157

**Special Tests and Provisions - R3 - Subrecipient Monitoring****Research and Development Cluster - ARRA**

**Award years - September 24, 2009 to August 31, 2010 and July 1, 2009 to June 30, 2010**

**Award numbers - CFDA 93.701 5 RCI RR028465-02 (ARRA) and CFDA 47.082 MCB-0920463 (ARRA)**

**Type of finding - Significant Deficiency and Non-Compliance**

The American Recovery and Reinvestment Act (Recovery Act) of 2009 required recipients to (1) agree to maintain records that identify adequately the source and application of Recovery Act awards; (2) separately identify to each subrecipient, and document at the time of the disbursement of funds, the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and the amount of Recovery Act funds; and (3) provide identification of Recovery Act awards in their Schedule of Expenditures of Federal Awards (SEFA). This information is needed to allow the recipient to properly monitor subrecipient expenditures of Recovery Act funds and for oversight by the federal awarding agencies, offices of inspector general, and the Government Accountability Office (Title 2, Code of Federal Regulations, Section 176.210).

Questioned Cost: \$ 0

U.S. Department of Health and  
Human Services  
National Science Foundation

**The University of Houston (University) did not identify Recovery Act information to 2 (100 percent) of 2 subrecipients at the time of the disbursement of funds, and it does not have a procedure to do so.**

For fiscal year 2010, this affected subaward expenditures totaling \$79,299. Failure to notify subrecipients about Recovery Act information at the time of disbursement may result in inaccurate reporting of Recovery Act funds by subrecipients.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The University did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system.** The University of Houston System (System) is responsible for granting access to that system. **A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users.** The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

Recommendations:

The University should:

- Develop a procedure to inform subrecipients of required Recovery Act information at the time it disburses funds to the subrecipients.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

Management Response and Corrective Action Plan:

*The Division of Research will institute procedures to notify subrecipients via e-mail of the federal award number, Catalog of Federal Domestic Assistance number, and amount of American Recovery and Reinvestment Act funds disbursed at the time of disbursement to subrecipients.*

*Implementation Date: February 1, 2011*

*Responsible Person: Beverly Rymer*

General controls

*We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.*

*Implementation Date: June 10, 2010*

*Responsible Persons: Katina McGhee and Keith Martin*

University of Houston - Downtown
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Reference No. 11-158

**Eligibility****Student Financial Assistance Cluster**

Award year - July 1, 2009 through June 30, 2010

Award numbers - CFDA 84.032 Award Number Not Applicable, CFDA 84.007 P007A094118, CFDA 84.033 P033A094118, CFDA 84.063 P063P20092306, CFDA 84.375 P375A20092306, and CFDA 84.376 P376S20092306

Type of finding - Significant Deficiency

Cost of Attendance

The determination of the federal student assistance award amount is based on financial need. Financial need is defined as the student's cost of attendance (COA) minus the expected family contribution (EFC). The phrase "cost of attendance" refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." Institutions also may include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087II).

Questioned Cost: \$ 0

U.S. Department of Education

**The University of Houston – Downtown's (University) written COA budget does not detail adjustments necessary to determine tuition and fees for part-time students in the Fall and Spring semesters.** Furthermore, the University was not able to provide documentation of how it calculated adjustments it made in PowerFAIDS to part-time students' tuition and fees during packaging of student financial assistance. According to University personnel, the part-time budget adjustments within PowerFAIDS were based on tuition and fees from the 2008-2009 award year because information on 2009-2010 tuition and fees was not available at the time the University programmed PowerFAIDS. Because support for tuition and fees adjustments was not available and the written budget did not provide sufficient detail for part-time students, University personnel cannot be assured that PowerFAIDS budget adjustments for part-time students accurately reflect tuition and fees normally assessed part-time students.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The University did not maintain adequate segregation of duties within PowerFAIDS, its financial aid system.** One information technology employee had administrative access to PowerFAIDS and the database and servers on which PowerFAIDS resides. Proper segregation of duties is required so that no employee has complete control of a business process. If an employee has administrative access to each component of a system (application, database, and servers), he or she could introduce unauthorized (errant or fraudulent) changes to the data or functionality of the production environment.

Recommendations:

The University should:

- Ensure the COA budgets within the financial aid application contain sufficient detail to verify COA for part-time students.
- Maintain appropriate segregation of duties in its financial aid application, database, and servers.

Management Response and Corrective Action Plan:

Cost of Attendance

To help ensure that the COA budgets within the financial aid application contain sufficient detail to verify COA for part-time students we will prepare a supporting spreadsheet for undergraduate students: full time (12 or more hours), three quarter time (9-11 hours), half-time time (6-8 hours), and less than half-time (less than 6 hours) and for graduate students: full time (9 or more hours), three quarter (7-8 hours) and half-time (5-6 hours) students. The University's official Tuition and Fee schedule will be maintained as an attachment.

Implementation Date: May 31, 2011

Responsible Person: LaTasha Goudeau

General Controls

The University is in the process of converting from PowerFacts to BANNER's financial aid application which will integrate financial aid with the BANNER student system. Within the BANNER environment there is a separation of duties and no one individual will have control of the business process. There is separation between application, database and servers. BANNER financial aid is expected to go live on February 28, 2011.

Implementation Date: February 2011

Responsible Person: LaTasha Goudeau

Reference No. 11-159

**Special Tests and Provisions - Disbursements To or On Behalf of Students**

**Student Financial Assistance Cluster**

Award year - July 1, 2009 to June 30, 2010

Award numbers - CFDA 84.032 Award Number Not Applicable, CFDA 84.007 P007A094118, CFDA 84.033 P033A094118, CFDA 84.063 P063P20092306, CFDA 84.375 P375A20092306, and CFDA 84.376 P376S20092306

Type of finding - Significant Deficiency and Non-Compliance

Returning Funds to a Lender

An institution must disburse loan funds within 3 business days of receipt if the lender provided the funds by electronic funds transfer (EFT) or master check, or 30 days if the lender provided the funds by check payable to the borrower or copayer to the borrower and the institution. If a student is temporarily not eligible for a disbursement, but the institution expects the student to become eligible for disbursement in the immediate future, the institution has an additional 10 business days to disburse the funds. An institution must return Federal Family Education Loan (FFEL) funds that it does not disburse by the end of the initial or conditional period, as applicable, promptly but no later than 10 business days from the last day allowed for disbursement (Title 34, Code of Federal Regulations, Section 668.167).

Questioned Cost: \$ 0  
U.S. Department of Education

**For 3 (5 percent) of 58 FFEL disbursements tested, the University of Houston - Downtown (University) did not disburse the funds to students' accounts within 3 business days of receipt from the lender.** The delays in disbursements were not the result of eligibility issues. The University's financial aid office posts the EFT to the students' account within PowerFAIDS. However, the University's cashier's office must release the funds in a separate system in order for the funds to disburse to the students' accounts. For these three disbursements, the University posted the EFT in PowerFAIDS within three business days. However, the University did not release the EFT in the separate system in a timely manner. As a result, the three disbursements were released within four, five, and eight business days after receipt. Delays in disbursement of loan funds could result in students not having funds when needed.

#### Financial Assistance History

If a student transfers from one institution to another institution during the same award year, the institution to which the student transfers must request from the Secretary of the U.S. Department of Education, through the National Student Loan Data System (NSLDS), updated information about that student so it can make certain eligibility determinations. The institution may not make a disbursement to that student for seven days following its request, unless it receives the information from NSLDS in response to its request or obtains that information directly by accessing NSLDS, and the information it receives allows it to make that disbursement (Title 34, Code of Federal Regulations, Section 668.19).

**For all three mid-year transfer students tested, the University could not provide evidence of financial assistance history review prior to disbursing financial aid.** The University does not have a policy or procedure to ensure it verifies and documents financial assistance history of mid-year transfer students prior to aid disbursement. As a result, the University may award funds in excess of federal limits to a student who received financial assistance at another institution at the start of the award year.

#### Common Origination and Disbursement System Reporting

Institutions submit Pell origination records and disbursement records to the U.S. Department of Education's Common Origination and Disbursement (COD) System. Institutions must report student payment data within 30 calendar days after they make a payment or become aware of the need to make an adjustment to previously reported student payment data or expected student payment data. (OMB Compliance Supplement, A-133, Part 5, Student Financial Assistance Cluster III.N.3 (page 5-3-19)) The disbursement amount and date in the COD System should match the disbursement date and amount in students' accounts or the amount and date the funds were otherwise made available to students. (OMB Compliance Supplement, A-133, Part 5, Student Financial Assistance Cluster, III.N.3 (page 5-3-30)).

**For all 36 Pell Grant disbursements tested, the actual date of the disbursement did not match the disbursement date the University reported to the COD System.** PowerFAIDS creates an origination date when running the COD System reporting process and reports that origination date as the Pell disbursement date. Although, PowerFAIDS can report the actual amount disbursed, it cannot identify and report the corresponding disbursement date to the COD System. As a result, the U.S. Department of Education is not obtaining accurate Pell disbursement information during the award year.

Additionally, the University did not submit any Pell disbursement records to the COD System from April 19, 2010 to June 10, 2010. During this time, the University identified 7 students for whom it did not submit Pell disbursement records within the 30-day reporting requirement.

#### General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The University did not maintain adequate segregation of duties within PowerFAIDS, its financial aid system.** One information technology employee had administrative access to PowerFAIDS and the database and servers on which PowerFAIDS resides. Proper segregation of duties is required so that no employee has complete control of a business process. If an employee has administrative access to each component of a system (application, database, and servers), he or she could introduce unauthorized (errant or fraudulent) changes to the data or functionality of the production environment

Recommendations:

The University should:

- Ensure that all departments complete the necessary steps to ensure that they disburse loan funds to students within three business days of receipt from the lender.
- Maintain documentation supporting its review of NSLDS financial assistance history for mid-year transfer students.
- Report actual disbursement dates to the COD System in a timely manner.
- Maintain appropriate segregation of duties in its financial aid application, database, and servers.

Management Response and Corrective Action Plan:

Returning Funds to a Lender

*The conversion of PowerFaidS to BANNER financial aid should help to ensure that funds are applied in a timely manner. However, since the University is now in the Federal Direct Loan program rather than the Federal Educational Loan Program (FELP) this should not be an issue since the University draws down Direct Loan funds from the U.S. Department of Education once a borrower's funds are applied to his/her account by the Business Office. We will communicate to the appropriate departments the audit findings related to the requirements to complete the steps necessary to help ensure that all funds are applied to a student's account in a timely manner.*

Financial Assistance History

*The University of Houston-Downtown concurs with this recommendation. The transfer file functionality was not part of PowerFaidS and as result was not well done. BANNER incorporates this functionality and all mid-year transfer and first-time enrollees will be placed on the transfer file.*

Common Origination and Disbursement Reporting

*We concur that PowerFaidS could not report the actual disbursement date to COD but defaulted to report date. The conversion from PowerFaidS to Banner financial aid system should remedy this situation as BANNER has the ability to report the actual disbursement date.*

*The University was in error by not running Pell disbursement record during the period April 19, 2010 to June 10, 2010 and was the result of human error. In conjunction with the conversion from PowerFaidS to BANNER financial aid system we will establish procedures to help ensure that actual disbursement dates are reported in a timely manner to COD.*

General Controls

*The University is in the process of converting from PowerFaidS to BANNER's financial aid application which will integrate financial aid with the BANNER student system. Within the BANNER environment there is a separation of duties and no one individual will have control of the business process. There is separation between application, database and servers. BANNER financial aid is expected to go live on February 28, 2011.*

Implementation Date: February 2011

Responsible Person: Latasha Goudeau

University of Houston - Victoria
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Reference No. 11-160

**Eligibility****Special Tests and Provisions - Disbursements To or On Behalf of Students****Student Financial Assistance Cluster**

Award year - July 1, 2009 to June 30, 2010

Award numbers - CFDA 84.268 Award Number Not Applicable, CFDA 84.007 P007A04901, CFDA 84.063 P063P093632, CFDA 84.033 P033A094901, CFDA 84.376 P376S093632, and CFDA 84.379 P379T10632

Type of finding - Significant Deficiency and Non-Compliance

Financial Need

The determination of the federal student assistance award amount is based on financial need. Financial need is defined as the student's cost of attendance (COA) minus the expected family contribution (EFC). The phrase "cost of attendance" refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." Institutions also may include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087II).

Questioned Cost: \$ 49,708

U.S. Department of Education

For Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and is computed by the federal central processor and included on the student's *Institutional Student Information Report* (ISIR) provided to the institution. Awards must be coordinated among the various programs and with other federal and non-federal aid to ensure that total aid is not awarded in excess of the student's financial need (Title 34, Code of Federal Regulations, Sections 673.5, 673.6 and 682.603).

The University of Houston – Victoria (University) performed all initial COA budget calculations correctly. However, after student enrollment levels changed, **the University did not consistently revalidate the students' enrollment status to ensure it awarded students the correct amount of financial assistance. As a result, the University overawarded financial assistance to 2 (5 percent) of 40 students tested based on the COA in the University's PeopleSoft system. Specifically:**

- For one student, the University awarded direct unsubsidized loans in excess of the student's COA. This occurred due to changes in the student's enrollment level for the Spring 2010 semester. The University initially awarded the student financial assistance based on full-time enrollment. However, the student dropped to three-quarter time enrollment for the Spring 2010 semester prior to the disbursement of financial assistance. The University did not repackage the student's financial assistance to reflect the change in COA, which caused the student to be awarded \$2,372 more than the student's COA.
- For the other student, the University initially awarded the student financial assistance based on three-quarter time enrollment, but the student dropped to half-time enrollment for the Spring 2010 semester prior to the disbursement of financial assistance. The University did not repackage the student's financial assistance, which could have resulted in an overaward of financial assistance. In this case, the student was not overawarded financial assistance because the student was co-enrolled at another institution during the Spring 2010 semester; however, the University did not have correct documentation in its system to reflect the student's co-enrollment status.

Based on a review of the entire population, as a result of not repackaging financial assistance awards prior to disbursement of financial assistance, the University overawarded a total of \$49,708 in financial assistance to 22 students (including the student discussed above).

Special Tests and Provisions - Disbursements To or On Behalf of Students

Although the general control weaknesses described above apply to disbursements, auditors identified no compliance issues regarding disbursements for the student financial assistance cluster.

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

**The University did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system.** The University of Houston System (System) is responsible for granting access to that system. A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users. The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

Recommendations:

The University should:

- Adjust financial assistance awards when changes in students' enrollment status affect their COA.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

Management Response and Corrective Action Plan:

Financial Need

*The two students who were identified as having a cost of attendance overaward were resolved.*

- *The student who was identified as being awarded an unsubsidized loan in excess of Cost of Attendance, subsequently submitted a Special Consideration Request which included a computer purchase and additional transportation expenses which occurred during the 2009-10 academic year. Our approval of the special consideration request did not require the University of Houston-Victoria to return the unsubsidized loan funds (\$2,372) to the lender since the student was no longer in an overaward situation.*
- *The Office of Financial Aid obtained the Consortium Agreement Form and supporting documentation from the other student after identifying the student was co-enrolled. The student's electronic file in the system was updated to reflect the student's full-time status and full-time cost of attendance for the Spring 2010 semester.*

*University of Houston PeopleSoft Project Office technical personnel made programming changes to the Custom Overaward Report in order to identify students who may have a federal financial need and/or a federal cost of attendance overaward. Testing was completed to insure that all students in both categories were included in the report prior to implementation of the change.*

Implementation Date: July 29, 2010

Responsible Person: Carolyn Mallory

General Controls

*We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.*

*Implementation Date: June 10, 2010*

*Responsible Persons: Katina McGhee and Keith Martin*

**Summary Schedule of Prior Audit Findings**

Federal Portion of  
Statewide Single Audit Report

For the Year Ended August 31, 2010

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## University of Houston

Reference No. 10-94

### Reporting

#### Activities Allowed or Unallowed

#### Cash Management

#### Eligibility

#### Period of Availability of Federal Funds

#### Special Tests and Provisions - Separate Funds

(Prior Audit Issue - 9-83)

### Student Financial Assistance Cluster

Award year - July 1, 2008 to June 30, 2009

Award numbers - CFDA 84.007 P007A084166, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A084166, CFDA 84.063 P063P082333, CFDA 84.375 P375A082333, and CFDA 84.376 P376S082333

Type of finding - Significant Deficiency and Non-Compliance

### General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

Initial Year Written: 2008  
Status: Partially Implemented  
U.S. Department of Education

The University of Houston (University) did not maintain appropriate user access to its financial aid system. Specifically:

- Twenty-four users had excessive access to the award aid with override function in the financial aid system.
- Twenty-two users had excessive access to the disburse aid with override function.
- Five user IDs had excessive access to the financial aid setup tables. One of the five user IDs was a generic user ID that staff members shared.

Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties. Use of generic user IDs and sharing user IDs and passwords does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

The University also should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, 19 users had inappropriate access to migrate code changes into the production environment for the financial aid system. The University should perform a formal periodic review of user access on the system, database, and server related to financial aid. Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties.

### Pell Payment Data Reporting

Institutions submit Pell origination records and disbursement records to the U.S. Department of Education's Common Origination and Disbursement (COD) System. The disbursement record reports the actual disbursement date and the amount of the disbursement. Institutions must report student payment data within 30 calendar days after they make a payment or become aware of the need to make an adjustment to previously reported student payment data or expected student payment data (Office of Management and Budget (OMB) Compliance Supplement A-133, March 2009, Part 5, Student Financial Assistance Cluster, III.L.1.e (page 5-3-18)). The disbursement amount and date in the COD System should match the disbursement date and amount in students' accounts or the amount and date the funds were otherwise made available to students (OMB Compliance Supplement A-133, Part 5, Student Financial Assistance Cluster, III.N.3 (page 5-3-29)).

For 18 (45 percent) of 40 students tested, the University did not report disbursement records to the COD System within 30 calendar days of the disbursement date. Specifically:

- For 14 of 18 students, their disbursement records were reported one day late due to a lack of understanding of the new student financial aid system. During the Fall 2008 semester, the student financial aid system was still in the process of being modified to prevent non-timely reporting of disbursement records, in response to the prior year audit issue.
- For 8 of 18 students, their disbursement records were reported late because the University did not recognize that the outgoing files did not contain the disbursement records from the financial aid system (4 of these were among the 14 discussed above that the University reported 1 day late). The University was unable to provide support or evidence to indicate why the outgoing files did not include these disbursement records. The University is developing controls to verify the completeness of files it creates from its financial aid system and then submits to the COD System.

The University does not have procedures to reconcile the data it submits to the COD System with the data in its financial aid system. This prevents the University from recognizing disbursement records that it does not submit to the COD System in a timely manner.

Activities Allowed or Unallowed, Cash Management, Eligibility, and Period of Availability of Federal Funds, and Special Tests and Provisions - Separate Funds

Although the general control weaknesses described above apply to activities allowed or unallowed, cash management, eligibility, period of availability of federal funds, and special tests and provisions - separate funds, auditors identified no compliance issues regarding these compliance requirements.

Corrective Action:

This finding was reissued as current year reference number: 11-151.

Reference No. 10-95

**Special Tests and Provisions - Verification**

**Student Financial Assistance Cluster**

**Award year - July 1 2008 to June 30, 2009**

**Award numbers - CFDA 84.007 P007A084166, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A084166, CFDA 84.063 P063P082333, CFDA 84.375 P375A082333, and CFDA 84.376 P376S082333**

**Type of finding - Significant Deficiency and Non-Compliance**

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

Initial Year Written:	2009
Status:	Partially Implemented
U.S. Department of Education	

The University of Houston (University) did not maintain appropriate user access to its financial aid system. Specifically:

- Twenty-four users had excessive access to the award aid with override function.
- Twenty-two users had excessive access to the disburse aid with override function.
- Five user IDs had excessive access to the financial aid setup tables. One of the five user IDs was a generic ID that staff members shared.

Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties. Usage of generic user IDs and sharing user IDs and passwords does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

The University also should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, 19 users had inappropriate access to migrate code changes into the production environment for the financial aid System. The University should perform a formal periodic review of user access on the system, database, and server related to financial aid. Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties.

#### Verification Policy

Institutions are required to establish and use written policies and procedures for verifying information contained in a student financial assistance application, the Free Application for Federal Student Aid (FAFSA), in accordance with Title 34, Code of Federal Regulations (CFR), Section 668.53. The CFR defines several elements the written policies and procedures must include.

The University's verification policies and procedures do not contain all of the elements required by the CFR. Specifically, the University's policies and procedures do not contain:

- The time period within which an applicant shall provide the documentation.
- The method the University uses to notify students of verification results, if, as a result of verification, the applicant's expected family contribution changes and results in a change in the applicant's award or loan.
- Procedures stating the University shall furnish, in a timely manner to each applicant selected for verification a clear explanation of (1) the documentation needed to satisfy the verification requirement and (2) the applicant's responsibilities with regard to the verification of application information.

#### Verification of Applicants

An institution must verify all FAFSAs that have been selected for verification. Items that are required to be verified include household size; number of household members who are in college; adjusted gross income (AGI); U.S. income taxes paid; and certain types of untaxed income and benefits such as Social Security benefits, child support, individual retirement account and Keogh account deductions, foreign income exclusion, earned income credit, and interest on tax-free bonds (Title 34, CFR, Section 668.56).

The University did not verify all required information on selected FAFSAs in accordance with federal regulations. For 1 (3 percent) of 40 verification cases tested, the University did not correctly update its records and the *Institutional Student Information Report* (ISIR) to reflect information on the student's household size. For 1 (3 percent) of 40 verification cases tested, the University did not correctly update its records and the ISIR to reflect information on the student's household members enrolled at least half-time in college. In each case, the student's eligibility was not affected by the error.

#### Corrective Action:

This finding was reissued as current year reference number: 11-152.

Reference No. 10-96

**Special Tests and Provisions - Disbursements To or On Behalf of Students**  
(Prior Audit Issue - 09-85)

**Student Financial Assistance Cluster**

**Award year - July 1, 2008 to June 30, 2009**

**Award numbers - CFDA 84.007 P007A084166, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A084166, CFDA 84.063 P063P082333, CFDA 84.375 P375A082333, and CFDA 84.376 P376S082333**

**Type of finding - Significant Deficiency and Non-Compliance**

**General Controls**

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

Initial Year Written:	2008
Status:	Implemented
U.S. Department of Education	

The University of Houston (University) did not maintain appropriate user access to its financial aid system. Specifically:

- Twenty-four users had excessive access to the award aid with override function.
- Twenty-two users had excessive access to the disburse aid with override function.
- Five user IDs had excessive access to the financial aid setup tables. One of the five user IDs was a generic user ID that staff members shared.

Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties. Use of generic user IDs and sharing user IDs and passwords does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

The University also should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, 19 users had inappropriate access to migrate code changes into the production environment for the financial aid system. The University should perform a formal periodic review of user access on the system, database, and server related to financial aid. Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties.

**Disbursement Notifications**

If an institution credits a student's account at the institution with Direct Loans, no earlier than 30 days before and no later than 30 days after crediting the student's account, the institution must notify the student or parent of (1) the date and amount of the disbursement, (2) student's right or parent's right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan, and (3) the procedures and the time by which the student or parent must notify the institution that he or she wishes to cancel the loan. The notification can be sent in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

For 44 (50 percent) of 88 Perkins and Federal Family Education Loan Program (FFELP) disbursements to students tested, the University did not have documentation that it sent the required disbursement notifications within the required time frame. Prior to the Spring 2009 semester, the University did not track disbursement notifications in its financial aid system. As a result, for Fall 2008 disbursements, the University was unable to provide evidence that it sent the required notifications. For disbursements the University made in the Spring 2009 and Summer 2009 semesters, the University was able to provide evidence that it sent the notifications in a timely manner. Not receiving these notifications promptly could impair students' and parents' ability to cancel their loans.

Corrective Action:

Corrective action was taken.

Reference No. 10-97

**Special Tests and Provisions - Return of Title IV Funds**

(Prior Audit Issue - 09-86)

**Student Financial Assistance Cluster**

**Award year - July 1, 2008 to June 30, 2009**

**Award numbers - CFDA 84.007 P007A084166, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A084166, CFDA 84.063 P063P082333, CFDA 84.375 P375A082333, and CFDA 84.376 P376S082333**

**Type of finding - Material Weakness and Material Non-Compliance**

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

Initial Year Written: 2008
Status: Partially Implemented
U.S. Department of Education

The University of Houston (University) did not maintain appropriate user access to its financial aid system. Specifically:

- Twenty-four users had excessive access to the award aid with override function in the financial aid system.
- Twenty-two users had excessive access to the disburse aid with override function.
- Five user IDs had excessive access to the financial aid setup tables. One of the five user IDs was a generic user ID that staff members shared.

Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties. Use of generic user IDs and sharing user IDs and passwords does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

The University also should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, 19 users had inappropriate access to migrate code changes into the production environment of the financial aid system. The University should perform a formal periodic review of user access on the system, database, and server related to financial aid. Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties.

Return of Title IV Funds

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV assistance earned by the student as of the student's withdrawal date (Title 34, Code of Federal Regulations, Section 668.22(a)(1)). If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is more than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (Title 34, Code of Federal Regulations, Sections 668.22(a)(3)-(4)).

Returns of Title IV funds are required to be deposited or transferred into the student financial aid account or electronic fund transfer must be initiated to the U.S. Department of Education or the appropriate Federal Family Education Loan (FFEL) lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew (Title 34, Code of Federal Regulations, Section 668.173(b)).

The University did not consistently return Title IV funds in a timely manner. Specifically:

- For 15 (38 percent) of 40 students tested, the University had not completed return of Title IV funds calculations as of auditors' first day of onsite work. Most of the students were unofficial withdrawals. The University subsequently provided its calculations to auditors for testing.
- For 13 (54 percent) of 24 unofficial withdrawals tested, the University did not determine the withdrawal date within 30 days of the end of enrollment period as required.
- For 25 (83 percent) of 30 students tested for whom the University was required to return Title IV funds, the funds were not returned within 45 days after the date the University determined that the students withdrew.

Additionally, for 6 (15 percent) of 40 students tested, the University did not return the correct amount of Title IV funds. Specifically:

- For four of these six students, the University incorrectly omitted room and board charges from the return calculation.
- For one of these six students, the University used seven days instead of eight days for Spring break in the computation of enrollment period. The University also incorrectly omitted room and board charges from the return calculation, but this did not affect the return amount.
- For one of these six students, due to special circumstances, the University did not process a return of funds, even though all funds are required to be returned.

Questioned costs associated with these 6 errors totaled \$5,873. However, total questioned costs could not be determined because auditors could not estimate the number of unofficial withdrawals that still needed a return calculation. In addition, the Spring break calculation error affected all students with an official withdrawal that required a return of funds in Spring 2009. In addition, the error in institutional charges appears to affect all on-campus students because the University omitted room and board charges from all calculations that auditors tested. While this last issue does not affect the total funds to be returned, it resulted in an overestimation of the funds to be returned by the students and an underestimation of the funds to be returned by the University.

The University also did not make a post-withdrawal disbursement of \$1,183 to one student who required this disbursement.

None of the students tested was identified as not having begun attendance. The University's system is currently unable to differentiate among students who never began attending, received all "F" grades, or dropped all of their classes (unofficial withdrawals). This may result in the University's failure to notify lenders of students who do not attend classes.

Corrective Action:

This finding was reissued as current year reference number: 11-153.

Reference No. 10-98

**Special Tests and Provisions - Students Status Changes**

(Prior Audit Issues - 09-87, 08-74, and 07-58)

**Student Financial Assistance Cluster**

**Award year - July 1, 2008 to June 30, 2009**

**Award number - CFDA 84.032 Award Number Not Applicable**

**Type of finding - Significant Deficiency and Non-Compliance**

General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

Initial Year Written: 2006 Status: Partially Implemented  U.S. Department of Education
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The University of Houston (University) did not maintain appropriate user access to its financial aid system. Specifically:

- Twenty-four users had excessive access to the award aid with override function in the financial aid system.
- Twenty-two users had excessive access to the disburse aid with override function.
- Five user IDs had excessive access to the financial aid setup tables. One of the five user IDs was a generic user ID that staff members shared.

Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties. Usage of generic user ids and sharing user IDs and passwords does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

The University also should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, 19 users had inappropriate access to migrate code changes into the production environment for the financial aid system. The University should perform a formal periodic review of user access on the system, database, and server related to financial aid. Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties.

Student Status Changes

Unless an institution expects to submit its next student status confirmation report to the U.S. Secretary of Education or the guaranty agency within the next 60 days, it must notify the guaranty agency or lender within 30 days, if it (1) discovers that a Stafford, Supplemental Loan for Students (SLS), or Parent Loans for Undergraduate Students (PLUS) has been made to or on behalf of a student who enrolled at that institution, but who has ceased to be enrolled on at least a half-time basis; (2) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that institution, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (3) discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (4) discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address (Title 34, Code of Federal Regulations, Section 682.610(c)).

The University uses the services of the National Student Clearinghouse (NSC) to report status changes to the National Student Loan Data System (NSLDS). Under this arrangement, the University reports all students enrolled and their status to NSC, regardless of whether those students receive federal financial assistance. NSC then identifies any changes in status and reports those changes when required to the respective lenders and guarantors. Additionally, NSC completes the roster file on the University's behalf and communicates status changes to NSLDS as applicable. Although the University uses the services of NSC, it is still ultimately the University's responsibility to submit timely, accurate, and complete responses to roster files and to maintain proper documentation (*NSLDS Enrollment Reporting Guide*, Chapter 1.3.1.1).

The University did not report student status changes to NSLDS accurately and in a timely manner. Specifically, for the 40 student status changes tested:

- The University did not report one student status change to NSLDS. The student withdrew, and the University did not report this to NSLDS.
- The University did not report five student status changes within the required time frame.
- The University did not report six student status changes to the lender/guarantor within the required time frame.
- The University reported the incorrect change type to NSLDS for two student status changes.
- The date of the student status change in the University's system did not match the date reported to NSLDS for four student status changes.

These errors were the result of manual data entry errors and delays in reporting. The University periodically reviews a judgmental sample of students and determines whether student status changes were accurately reported. However, this review process did not help to ensure the accurate and timely reporting of all the student status changes tested.

The University's policies and procedures do not specify time frames for updating student status for Federal Family Education Loan Program (FFELP) and Direct Loan Program recipients. Without a process to ensure accurate and timely reporting, the University is not able to detect non-compliance and take appropriate and timely action to address issues.

Corrective Action:

This finding was reissued as current year reference number: 11-154.

## University of Houston - Clear Lake

Reference No. 10-99

### Eligibility

#### Special Tests and Provisions - Disbursements To or On Behalf of Students

#### Student Financial Assistance Cluster

Award year - July 1, 2008 to June 30, 2009

Award numbers - CFDA 84.268 Award Number Not Applicable, CFDA 84.038 Award Number Not Applicable, CFDA 84.063 PO63P20083465, CFDA 84.033 PO33A084160, CFDA 84.379 P379T093465, CFDA 84.007 POO7A084160, and CFDA 84.376 P376S083465

Type of finding - Significant Deficiency and Non-Compliance

### General Controls

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300 (b)).

Initial Year Written: 2009  
Status: Implemented  
U.S. Department of Education

Nineteen users initially had the capability to migrate code objects (such as COBOL programs, SQL statements, pages, and forms) into the production environment of the financial aid application (PeopleSoft). Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties.

### Eligibility

The determination of the federal student assistance award amount is based on financial need. Financial need is defined as the student's cost of attendance (COA) minus the expected family contribution (EFC). The phrase "cost of attendance" refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." Institutions also may include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087ll).

For Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and is computed by the federal central processor and included on the student's Institutional Student Information Report (ISIR) provided to the institution. Awards must be coordinated among the various programs and with other federal and non-federal assistance to ensure that total assistance is not awarded in excess of the student's financial need (Title 34, Code of Federal Regulations, Section 685.301).

For the federal Pell Grant program, the payment and disbursement schedules provided each year by the U.S. Department of Education are used for determining award amounts (Title 34, Code of Federal Regulations, Section 690.62). These schedules provide the maximum annual amount a student would receive for a full academic year for a given enrollment status, EFC, and COA. There are separate schedules for three-quarter-time, half-time, and less-than-half-time students. Additionally, a student's eligibility for a Pell Grant must first be determined and considered before a student is awarded other assistance such as Direct Subsidized or Direct Unsubsidized loans (Title 34, Code of Federal Regulations, Section 685.200).

The University calculated financial need incorrectly for two students. As a result, the University:

- Overawarded Direct Subsidized loans to 1 (2.5 percent) of 40 students tested. The student registered full-time but attended half-time. The University adjusted the student's COA after the student's enrollment status changed, but it did not adjust the financial assistance award accordingly. The University awarded the student \$8,458 more in need-based awards than his COA and EFC allowed. The University did not have sufficient controls in place to ensure that it awarded the student the correct amount.

- Underawarded a federal Pell Grant award to 1 (8.3 percent) of 12 students tested. The University awarded the student \$841 in Pell Grant funds when the student was eligible to receive \$1,261. The student originally provided information to the University that specified that the student intended to graduate at the end of the Fall 2008 semester; therefore, the University reduced the student's 2008-2009 assistance package to include Fall 2008 semester attendance only. However, the student did not graduate at the end of the Fall 2008 semester and enrolled half-time for the Spring 2009 semester. The University then manually increased the student's assistance package to include Spring 2009 semester assistance. However, the University did not award this student Pell Grant funds for the Spring 2009 semester and awarded only federal Direct Subsidized and Unsubsidized loans to this student. The University corrected the federal Pell Grant award to this student on June 18, 2009.

Special Tests and Provisions - Disbursements to or On Behalf of Students

Although the general control weaknesses described above apply to disbursements to or on behalf of students, auditors identified no compliance issues regarding disbursements of student financial assistance.

Corrective Action:

Corrective action was taken.

<b>University of Houston - Downtown</b>
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Reference No. 07-60

**Special Tests and Provisions - Disbursements To or On Behalf of Students****Student Financial Assistance Cluster****Award year - July 1, 2005 to June 30, 2006****Award number - CFDA 84.032 Award Number Not Applicable****Type of finding - Material Weakness Control and Material Non-Compliance**

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (FFELP) loans, no earlier than 30 days before and no later than 30 days after crediting the student's account, the institution must notify the student or parent of (1) the date and amount of the disbursement, (2) the student's right or parent's right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan, and (3) the procedures and the time by which the student or the parent must notify the institution that he or she wishes to cancel the loan or loan disbursement. The requirement for FFELP loans applies only if the funds are disbursed by electronic funds transfer payment or master check. The notification can be made in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

Initial Year Written: 2006

Status: Implemented

U.S. Department of Education

The University of Houston - Downtown (University) did not consistently send out the required notifications to FFELP loan recipients in fiscal year 2006. Of the 22 FFELP loan recipients sampled, 11 students (50 percent) did not receive any notification, and 7 students (32 percent) received notifications in the fall semester but not in the spring semester.

The University's current notification process is primarily manual and depends on employees to (1) accurately review the *Texas Guaranteed Student Loan Corporation Disbursement Report*, (2) enter the appropriate comment in the student financial aid management system, and (3) mail the notification. When the University does not distribute the required notifications, this reduces the opportunity for loan recipients to cancel the awards if they choose to do so.

**Corrective Action:**

Corrective action was taken.

## University of Houston - Victoria

Reference No. 08-75

### Special Tests and Provisions - Disbursements To or On Behalf of Students

#### Student Financial Assistance Cluster

Award year - July 1, 2006 - June 30, 2007

Award numbers - CFDA 84.032 Award Number Not Applicable and CFDA 84.063 Award Number P063P063632

Type of finding - Significant Deficiency and Non-Compliance

#### Pell Payment Reporting

All institutions submit payment data to the U.S. Department of Education through the Common Origination and Disbursement (COD) System. Origination records can be sent well in advance of any disbursement, as early as the institution chooses to submit them for any student the institution reasonably believes will be eligible for a payment. The institution follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid. The disbursement record reports the actual disbursement date and the amount of the disbursement. Institutions must report student payment data within 30 calendar days after they make a payment or become aware of the need to make an adjustment to previously reported student payment data or expected student payment data (Office of Management and Budget Circular A-133 Compliance Supplement, Part 5, Section L.1.e) and the Secretary of the U.S. Department of Education accepts a student's payment data that is submitted in accordance with procedures established through publication in the *Federal Register*, and that contains information the Secretary considers to be accurate in light of other available information including that previously provided by the student and the institution (Title 34, Code of Federal Regulations, Section 690.83(a)(2)).

Initial Year Written: 2007  
Status: Implemented

U.S. Department of Education

In a sample of 50 students tested at the University of Houston - Victoria (University), 14 students received Pell Grant awards. However, the University did not report the correct date of disbursement of Pell Grant awards to the COD System for any of those 14 students.

The University did not record the actual disbursement dates; instead, it set the disbursement dates as 10 days prior to the semester start date and when disbursements were processed (in 6 cases, this was more than 30 days after disbursement). When the University does not accurately report disbursement dates, this increases the risk of over awards being made to students. In addition, the Secretary of the U.S. Department of Education could impose a fine on the institution if the institution fails to comply with the requirement (Title 34, Code of Federal Regulations, Section 690.83(c)).

#### Disbursement Notifications

If an institution credits a student's account at the institution with Federal Perkins Loans (FPL) or Federal Family Education Loan Program (FFELP) loans, no earlier than 30 days before and no later than 30 days after crediting the student's account, the institution must notify the student or parent of (1) the date and amount of the disbursement, (2) the student's right or parent's right to cancel all or a portion of that loan or loan disbursement, and have the loan proceeds returned to the holder of that loan, and (3) the procedures and the time by which the student or the parent must notify the institution that he or she wishes to cancel the loan or loan disbursement. The requirement for FFELP loans applies only if the funds are disbursed by electronic funds transfer payment or master check. The notification can be made in writing or electronic (Title 34, Code of Federal Regulations, Section 668.165).

The University did not consistently send the required notifications to FFELP loan recipients in fiscal year 2007. In the sample of 50 students, 47 were FFELP loan recipients. Three of these 47 students (6.38 percent) did not receive a notification, and one of these 47 students (2.13 percent) did not receive a notification in a timely manner. In addition, the notification letters the University sent for the Fall 2006 and Spring 2007 semesters did not include information regarding the required right to cancel or the procedure and time by which the student or parent must notify the institution. The notification letters the University sent for the Summer 2007 semester were correct.

When the University does not send the required notifications or the notifications do not include required information on the right to cancel and cancellation procedures, the opportunity for loan recipients to cancel their awards is reduced.

#### Transfer Student Monitoring

If a student transfers from one institution to another institution during the same award year, the institution to which the student transfers must request from the Secretary of the U.S. Department of Education, through the National Student Loan Data System (NSLDS), updated information about that student so it can make the following determinations: (1) whether the student is in default on any title IV, HEA program loan; (2) whether the student owes an overpayment on any Title IV, Higher Education Assistance (HEA) program grant or Federal Perkins Loan; (3) for the award year for which a Federal Pell Grant is requested, the student's scheduled Federal Pell Grant and the amount of Federal Pell Grant funds disbursed to the student; and (4) the outstanding principal balance of loans is made to the student under each of the Title IV, HEA loan programs. The institution may not make a disbursement to that student for seven days following its request, unless it receives the information from NSLDS in response to its request or obtains that information directly by accessing NSLDS, and the information it receives allows it to make that disbursement (Title 34, Code of Federal Regulations, Section 668.19).

The University did not follow the transfer student monitoring criteria for 5 of 14 (35.7 percent) transfer students included in a sample of 50 students. Specifically:

- Auditors were unable to locate documentation with the date of the file transfer to NSLDS for 4 of 14 transfer students.
- The University made a disbursement to 1 of the 14 transfer students one day after requesting information from NSLDS.

The University's financial aid counselors are not following and/or documenting their completion of the procedures in the *Financial Aid Manual*, Section 17, which requires a review of the student loan history, default status, overpayment status, and aggregate limits on NSLDS prior to disbursement of awards to transfer students.

When the University does not request information from NSLDS, does not wait the required seven days to disburse funds, or does not document that it has accessed NSLDS to verify student status, the University risks awarding or overawarding assistance to a student who may not be eligible.

#### Corrective Action:

Corrective action was taken.

**John Keel, CPA  
State Auditor**

State of Texas Financial Portion of the  
**Statewide Single Audit Report  
for the Year Ended  
August 31, 2010**

February 2011  
Report No. 11-555

## Overall Conclusion

The basic financial statements presented in the Comprehensive Annual Financial Report (CAFR) for the State of Texas present fairly, in all material respects, the financial position and activities of the State for the fiscal year ended August 31, 2010. These financial statements provide a comprehensive disclosure of the State's financial activities during the fiscal year and an overall picture of the financial position of the State at the end of the fiscal year.

The State successfully contends with significant complexities in preparing its basic financial statements. Compiling financial information and ensuring its accuracy for more than 200 state agencies and higher education institutions is a major undertaking. The financial statements convey the use of more than \$120.1 billion during the fiscal year.<sup>1</sup>

Auditing financial statements is not limited to reviewing the numbers in those statements. Conducting this audit also requires the State Auditor's Office to obtain a sufficient understanding of the agencies and higher education institutions and their operating environments, including obtaining an understanding of the internal controls over systems and processes that the agencies and higher education institutions use to record their financial activities, in order to assess the risk of material misstatement of the financial statements. Through that effort, auditors identified specific weaknesses that four agencies and three higher education institutions should correct to improve the reliability of their financial information.

### Basic Financial Statements

The State's basic financial statements include both government-wide and fund financial statements:

- Government-wide financial statements are designed to present an overall picture of the financial position of the State. These statements do not include retirement system assets, trust funds, or agency funds.
- Fund financial statements present financial information, focus on the most significant funds, and are presented in a form that is more familiar to experienced users of governmental financial statements.

The State Auditor's Office audited material line items of major funds at 12 of the State's largest agencies and higher education institutions.

<sup>1</sup> The \$120.1 billion in annual expenditures exceeded the \$96.1 billion appropriated for fiscal year 2010 primarily because:

- Certain expenditures (such as higher education institutions' expenditures of funds held outside of the State Treasury) are included in the Comprehensive Annual Financial Report but are not included in the General Appropriations Act.
- The Comprehensive Annual Financial Report presents actual expenditures of federal funds, while the General Appropriations Act presents estimated amounts for federal funds.
- The Comprehensive Annual Financial Report is presented on an accrual basis, while the General Appropriations Act is presented primarily on a cash basis.

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## Agencies and Higher Education Institutions Should Strengthen Their Review of Their Schedules of Expenditures of Federal Awards

Reference No. 11-555-17  
(Prior Audit Issues 10-555-26 and 09-555-19)

### Type of finding: Significant Deficiency

#### Schedule of Expenditures of Federal Awards (SEFA)

Each agency, college, and university that expends federal awards is required to prepare a Schedule of Expenditures of Federal Awards (SEFA). Federal awards include federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities [Office of Management and Budget (OMB) Circular A-133, Section .105].

Federal financial assistance includes any assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance [OMB Circular A-133, Section .105].

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2010.

The agencies and higher education institutions listed in Table 1 did not perform an adequate review of their fiscal year 2010 Schedules of Expenditures of Federal Awards (SEFAs) (see text box for additional information).

Because they did not perform an adequate review, the SEFAs these agencies and higher education institutions submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office) contained errors. Table 1 summarizes the errors that auditors identified in these agencies' and higher education institutions' fiscal year 2010 SEFAs.

The 8 agencies and 18 higher education institutions listed below reported \$21.9 billion in federal expenditures, or 38.5 percent of the total federal expenditures the State of Texas reported for fiscal year 2010. The errors listed below were not material to the fiscal year 2010 SEFA for the State of Texas or to the fiscal year 2010 Comprehensive Annual Financial Report for the State of Texas.

Table 1

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2010 SEFAs								
Agency or Higher Education Institution	Incorrect Program Clustering <sup>a</sup>	Incorrect Pass-through Reporting <sup>b</sup>	Incorrect Preparation of SEFA Using Revenues <sup>c</sup>	Incorrect Classification of Expenditures <sup>d</sup>	Incorrect Inclusion of Expenditures <sup>e</sup>	Incorrect Exclusion of Expenditures <sup>f</sup>	Errors in Notes to the SEFA <sup>g</sup>	Incorrect Reporting of ARRA Expenditures <sup>h</sup>
Department of Aging and Disability Services						X		
Department of Agriculture		X			X	X		
Department of Public Safety					X		X	

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2010 SEFAs								
Agency or Higher Education Institution	Incorrect Program Clustering <sup>a</sup>	Incorrect Pass-through Reporting <sup>b</sup>	Incorrect Preparation of SEFA Using Revenues <sup>c</sup>	Incorrect Classification of Expenditures <sup>d</sup>	Incorrect Inclusion of Expenditures <sup>e</sup>	Incorrect Exclusion of Expenditures <sup>f</sup>	Errors in Notes to the SEFA <sup>g</sup>	Incorrect Reporting of ARRA Expenditures <sup>h</sup>
Department of State Health Services		X						X
Department of Transportation		X						
Higher Education Coordinating Board						X		
Parks and Wildlife Department			X					
Sam Houston State University	X			X	X	X	X	
Texas A&M University System Health Science Center					X			
Texas A&M International University			X					
Texas Education Agency	X	X						
Texas Southern University					X			
Texas State University - San Marcos							X	
The University of Texas at Arlington					X		X	
The University of Texas at Austin	X				X	X	X	
The University of Texas at Brownsville		X						

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2010 SEFAs								
Agency or Higher Education Institution	Incorrect Program Clustering <sup>a</sup>	Incorrect Pass-through Reporting <sup>b</sup>	Incorrect Preparation of SEFA Using Revenues <sup>c</sup>	Incorrect Classification of Expenditures <sup>d</sup>	Incorrect Inclusion of Expenditures <sup>e</sup>	Incorrect Exclusion of Expenditures <sup>f</sup>	Errors in Notes to the SEFA <sup>g</sup>	Incorrect Reporting of ARRA Expenditures <sup>h</sup>
The University of Texas at El Paso				X			X	
The University of Texas - Pan American							X	
The University of Texas Health Science Center at Houston							X	X
The University of Texas Health Science Center at San Antonio	X							
The University of Texas M. D. Anderson Cancer Center				X				X
The University of Texas Medical Branch at Galveston	X						X	
The University of Texas Southwestern Medical Center at Dallas	X						X	
University of Houston				X				
University of Houston - Downtown				X				
University of North Texas Health Science Center at Fort Worth	X							

## Agencies and Higher Education Institutions Should Strengthen Their Reviews of Their Schedules of Expenditures of Federal Awards

Reference No. 10-555-26  
(Prior Audit Issues 09-555-19)

### Type of finding: Significant Deficiency

#### Schedule of Expenditures of Federal Awards (SEFA)

Each agency, college, and university that expends federal awards is required to prepare a Schedule of Expenditures of Federal Awards (SEFA). Federal awards include federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities [Office of Management and Budget (OMB) Circular A-133, Section .105].

Federal financial assistance includes any assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance (OMB Circular A-133, Section .105).

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2009.

The agencies and higher education institutions listed in Table 3 did not perform an adequate review of their fiscal year 2009 Schedules of Expenditures of Federal Awards (SEFAs) (see text box for additional information).

Because they did not perform an adequate review, the SEFAs these agencies and higher education institutions submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office) contained errors. Table 3 summarizes the errors that auditors identified in these agencies' and higher education institutions' fiscal year 2009 SEFAs.

The 9 agencies and 17 higher education institutions listed below reported \$36.4 billion in federal expenditures, or 78.7 percent of the total federal expenditures reported by

the State of Texas for fiscal year 2009. The errors listed below were not material to the fiscal year 2009 SEFA for the State of Texas or to the fiscal year 2009 Comprehensive Annual Financial Report for the State of Texas.

Table 3

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2009 SEFAs								
Agency or Higher Education Institution	Incorrect Program Clustering <sup>a</sup>	Incorrect Pass-through Reporting <sup>b</sup>	Incorrect Preparation of SEFA Using Revenues <sup>c</sup>	Incorrect Classification of Expenditures <sup>d</sup>	Incorrect Inclusion of Expenditures <sup>e</sup>	Incorrect Exclusion of Expenditures <sup>f</sup>	Incorrect Exclusion of Indirect Cost Recovery <sup>g</sup>	Errors in Notes to the SEFA <sup>h</sup>
Adjutant General's Department				X				X
Department of Aging and Disability Services				X	X	X		
Department of Agriculture		X					X	

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2009 SEFAs								
Agency or Higher Education Institution	Incorrect Program Clustering <sup>a</sup>	Incorrect Pass-through Reporting <sup>b</sup>	Incorrect Preparation of SEFA Using Revenues <sup>c</sup>	Incorrect Classification of Expenditures <sup>d</sup>	Incorrect Inclusion of Expenditures <sup>e</sup>	Incorrect Exclusion of Expendi- tures <sup>f</sup>	Incorrect Exclusion of Indirect Cost Recovery <sup>g</sup>	Errors in Notes to the SEFA <sup>h</sup>
Department of State Health Services								X
Department of Transporta- tion		X		X				
Health and Human Services Commission		X		X				
Office of the Attorney General		X			X			
Parks and Wildlife Department			X					
Sam Houston State University	X							X
Tarleton State University	X			X				
Texas A&M University					X			X
Texas A&M University - Commerce		X						
Texas A&M University - Kingsville	X							
Texas State University - San Marcos					X	X		X
Texas Workforce Commission		X						
The University of Texas at Arlington	X			X				X
The University of Texas at Austin	X			X				X
The University of Texas at El Paso				X				X

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2009 SEFAs								
Agency or Higher Education Institution	Incorrect Program Clustering <sup>a</sup>	Incorrect Pass-through Reporting <sup>b</sup>	Incorrect Preparation of SEFA Using Revenues <sup>c</sup>	Incorrect Classification of Expenditures <sup>d</sup>	Incorrect Inclusion of Expenditures <sup>e</sup>	Incorrect Exclusion of Expenditures <sup>f</sup>	Incorrect Exclusion of Indirect Cost Recovery <sup>g</sup>	Errors in Notes to the SEFA <sup>h</sup>
The University of Texas - Pan American				X				X
The University of Texas Health Science Center at Houston				X		X		X
The University of Texas Health Science Center at San Antonio	X							
The University of Texas Medical Branch at Galveston	X			X	X			X
University of Houston						X		X
University of Houston - Clear Lake					X	X		X
University of North Texas	X							
University of North Texas Health Science Center at Fort Worth	X			X	X			X
<sup>a</sup> Reported federal programs in an incorrect cluster. <sup>b</sup> Incorrectly classified expenditures as direct expenditures. The expenditures should have been classified as "Pass-Through to Non-State Entities" and "Pass-Through to Agencies or Universities." <sup>c</sup> Incorrectly prepared SEFA using federal revenues rather than expenditures. <sup>d</sup> Incorrectly classified expenditures between federal programs. <sup>e</sup> Over-reported federal expenditures on its SEFA. Expenditures were reported based on the federal award year rather than the state fiscal year. <sup>f</sup> Under-reported federal expenditures on its SEFA. <sup>g</sup> Did not include indirect cost recovery. <sup>h</sup> Errors were noted in the notes to the SEFAs.								

Performing an adequate review of their SEFAs and supporting documentation would help the agencies and higher education institutions ensure that the SEFA information they submit to the Comptroller's Office is accurate.

### Correction Action and Management's Responses

Summary of Corrective Action	
Agency or Higher Education Institution	Corrective Action
Adjutant General's Department	Corrective action taken.
Department of Aging and Disability Services	See current year finding 11-555-17.
Department of Agriculture	See current year finding 11-555-17.
Department of State Health Services	Corrective action was taken. However, see current year finding 11-555-17.
Department of Transportation	See current year finding 11-555-17.
Health and Human Services Commission	Corrective action taken.
Office of the Attorney General	Corrective action taken.
Parks and Wildlife Department	See current year finding 11-555-17.
Sam Houston State University	See current year finding 11-555-17.
Tarleton State University	Corrective action taken.
Texas A&M University	Corrective action taken.
Texas A&M University - Commerce	Corrective action taken.
Texas A&M University - Kingsville	Corrective action taken.
Texas State University - San Marcos	See current year finding 11-555-17.
Texas Workforce Commission	Corrective action taken.
The University of Texas at Arlington	See current year finding 11-555-17.
The University of Texas at Austin	See current year finding 11-555-17.
The University of Texas at El Paso	See current year finding 11-555-17.
The University of Texas - Pan American	See current year finding 11-555-17.
The University of Texas Health Science Center at Houston	See current year finding 11-555-17.
The University of Texas Health Science Center at San Antonio	See current year finding 11-555-17.
The University of Texas Medical Branch at Galveston	See current year finding 11-555-17.
University of Houston	Corrective action was taken. However, see current year finding 11-555-17.
University of Houston - Clear Lake	Corrective action taken.
University of North Texas	Corrective action taken.
University of North Texas Health Science Center at Fort Worth	See current year finding 11-555-17.

### **Management's Response from the University of Houston**

*The University will implement additional reviews and procedures when creating the award information in our financial system to help ensure that the correct CFDA is associated with each Federal award. As we prepare the Annual Financial Report we will perform an additional review of the SEFA submission to help ensure that expenses are reported under the correct CFDA.*

*Implementation Date: April 30, 2011*

*Responsible Person: Executive Director, Financial Reporting*

### **Management's Response from the University of Houston - Downtown**

*The University will implement additional reviews and procedures when creating the award information in our financial system to help ensure that the correct CFDA is associated with each Federal award. As we prepare the Annual Financial Report we will perform an additional review of the SEFA submission to help ensure that expenses are reported under the correct CFDA.*

*Implementation Date: April 30, 2011*

*Responsible Person: Assistant Vice President for Business Affairs*

### **Management's Response from the University of North Texas Health Science Center at Fort Worth**

*Management agrees with the findings of the audit, that certain expenditures were improperly clustered as Research and Development.*

*Corrective actions will be implemented with the next SEFA filing for fiscal year 2011.*

*Implementation Date: November 2011*

*Responsible Persons: Director of Accounting and Director Grants and Contracts*

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

**COMMITTEE:** Audit and Compliance

**ITEM:** UH System Support Organizations

- Compliance Review of UH System Support Organizations
- UH System Support Organization Report

**DATE PREVIOUSLY SUBMITTED:**

**SUMMARY:**

Board of Regents Policy 32.06 requires an annual report on compliance of private support organizations and foundations. The attached Compliance Review of UH System Support Organizations as of April 20, 2011, identifies all required annual information that has been received by UHS. The attached UHS System Support Organizations Report summarizes the investment activity and financial activity of each of the foundations.

**SUPPORTING**

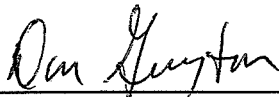
**DOCUMENTATION:** UH System Support Organizations

- Compliance Review of UH System Support Organizations
- UH System Support Organization Report

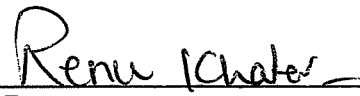
**FISCAL NOTE:**

**RECOMMENDATION/  
ACTION REQUESTED:** Information

**COMPONENT:** University of Houston System

  
\_\_\_\_\_  
**CHIEF AUDIT EXECUTIVE** Don Guyton

4/29/11  
\_\_\_\_\_  
**DATE**

  
\_\_\_\_\_  
**CHANCELLOR** Renu Khator

5/6/11  
\_\_\_\_\_  
**DATE**

**Compliance Review of UH System Support Organizations  
April 20, 2011**

<b>Compliance Item:</b>	<b>Assoc. for Community Broadcasting</b>	<b>Cullen ENG Research Foundation</b>	<b>Found. for Education &amp; Research in Vision</b>	<b>Houston Athletics Foundation</b>	<b>UH Alumni Association</b>	<b>UH Business Foundation</b>	<b>UH Law Foundation</b>	<b>UH Foundation</b>
Articles of Incorporation and Bylaws	√	√	√	√	√	√	√	√
Current List of Board Members	√	Note 1	√	√	√	√	√	√
Audited Financial Reports FY2009	√ Feb 2011	Note 1	√ Mar 2011	Target Date June 2011	√ Mar 2011	√ Jan 2011	Target Date Jun 2011	√ Jan 2011
IRS Form 990 for FY2009	√ Mar 2011	Note 1	√ Mar 2011	Target Date Jul 2011	√ Mar 2011	Target Date May 2011	Target Date Jul 2011	√ Apr 2011
Donor Gift Information	√	Note 1	√	√	√	√	√	√
Written Investment Policies	√	Note 1	√	√	√	√	√	√
Updated State Disclosure Statement for Outside Financial Advisors	In process	Note 1	In process	In process	In process	Does Not Use External Advisors	In process	In process

*Note 1: The Cullen Engineering Research Foundation has been dormant in recent years but has indicated it will reactivate in future*

## University of Houston System Support Organizations Report

All of the recognized support organizations of the University of Houston System are organized as nonprofit corporations under the Internal Revenue Code §501(c)(3), the Texas Business Organizations Code Chapter 22, and the Texas Government Code §2255.001. The Regents of the University of Houston System have a fiduciary duty of obedience, loyalty, and due care to the System. Though the Regents do not have an independent fiduciary duty to independent support organizations, their existing fiduciary duty extends by agreement to the policies controlling the funds and activities of these organizations. The provisions we have included in the support organization agreements help ensure that the Regents meet these responsibilities. The agreements contain provisions addressing areas such as ethical conduct, conflict of interest, auditing, gift reporting, adherence to federal, state, and local laws, as well as adherence to UH policies and procedures. Board of Regents Policy 32.06 sets forth the specific items to be included.

The University of Houston System has seven active support organizations: University of Houston Foundation, University of Houston College of Business Foundation, University of Houston Law Foundation, Association for Community Broadcasting, Foundation for Education and Research in Vision, Houston Alumni Organization, and Houston Athletics Foundation. The Board of Regents policy on private support organizations and foundations provides that such entities must enter into a written agreement with the board that addresses various administrative, reporting, and accountability requirements. The system policy on private support organizations and foundations requires for such entities to annually provide financial reports, tax returns, gift information, and other financial information as requested. These policies and the Board of Regents Audit and Compliance Committee charter require an annual compliance report from the UH System to the board on the compliance of the support organizations with the agreements. This annual compliance report is presented at the Audit and Compliance Committee meeting in May of each year. This report indicates the status of the receipt of all requested information. The Office of University Advancement performs follow-up procedures to help ensure that all requested information is received. In June of each year, the UH System Treasurer's Office requests information on each support organization's investment activity and returns in order to respond to the annual survey conducted by the National Association of College and University Business Officers. The Treasurer's Office also annually requests from the foundations other disclosure information in the format prescribed by the State Auditor's Office.

The attached analysis summarizes the investment activity and the financial activity. A review of these analyses and the underlying investment reports, financial reports, and tax returns reveal the following:

- Each of the foundations manages their own investments. The total amount of investments managed by these foundations was approximately \$110 million as of June 30, 2010. The investment returns of the foundations range from 5.8% to 15.6% for the year ending June 30, 2010.

- The foundations paid professional investment fees of approximately \$203,700 during fiscal year 2009.
- Two foundations (the Association for Community Broadcasting and the Houston Alumni Association) actively solicit gifts.
- Four Foundations have full or part-time employees: UH Foundation, Houston Alumni Association, UH Law Foundation, and UH College of Business Foundation.
- Only one of the foundations leases office space, the University of Houston Foundation, for approximately \$31,000 a year.
- The accounting and auditing fees for each of the firms range from a low of \$12,000 to a high of \$23,000.
- The UH College of Business Foundation and the Houston Alumni Association recently changed their yearends to August 31<sup>st</sup> to coincide with UH System's mandated yearend. As a result, all of the foundations now have fiscal year ends on August 31<sup>st</sup>.
- The accounting and auditing firms did not consistently classify expenditures in the same category on their financial statements or in the tax returns, thus making comparability rather difficult in some situations.

The following table summarizes key elements of the foundations:

Summary of Support Organizations Activity – FY 2008/FY 2009							
Note: FY 2008 numbers are italicized and in red font							
	University of Houston Foundation	University of Houston College of Business Foundation	University of Houston Law Foundation	Association for Community Broadcasting	Foundation for Education and Research in Vision, Inc.	Houston Alumni Association	Houston Athletics Foundation, Inc.
I. Investments – MV as of June 30, 2010 – Source: Foundations, IRS Forms 990, and Financials							
• Investments	\$68,314,318	\$14,553,337	\$15,642,045	\$412,950	\$2,044,251	\$4,881,558	\$5,150,630
• Return (1-year)	15.6%	12.6%	5.82%	11.9%	10.4%	11.0%	10.9%
II. Gifts to Foundation							
• New Commitments	<i>\$3,810,638</i> \$2,375,541	<i>\$3,968,468</i> \$1,080,057	<i>\$1,999,289</i> \$1,776,788	<i>\$4,709,776</i> \$4,090,000	<i>\$256,851</i> \$218,478	<i>\$793,259</i> \$683,010	<i>\$0</i> \$0
• Gift Revenue	<i>\$4,644,504</i> \$3,889,312	<i>\$2,988,447</i> \$1,222,340	<i>\$1,302,598</i> \$1,509,251	<i>\$9,328,968</i> \$7,750,095	<i>\$296,597</i> \$297,115	<i>\$1,309,060</i> \$1,201,049	<i>\$19,794</i> \$4,730
III. University Support							
• University Support	<i>\$5,930,368</i> \$3,596,749	<i>\$246,786</i> \$243,102	<i>\$76,300</i> \$171,272	<i>\$6,686,773</i> \$7,015,401	<i>\$221,782</i> \$331,406	<i>\$248,011</i> \$236,394	<i>\$290,000</i> \$218,800
IV. Cost of Operations							
• Number of Foundation Employees	<i>3</i> 3	<i>1</i> 1	<i>1</i> 1	<i>0</i> 0	<i>0</i> 0	<i>5<sup>(1)</sup></i> 5 <sup>(1)</sup>	<i>0</i> 0
• Salaries and Wages	<i>\$447,450</i> \$469,020	<i>\$45,751</i> \$48,443	<i>\$8,500</i> \$771,867	<i>\$0</i> \$0	<i>\$0</i> \$0	<i>\$269,381</i> \$1,226,420	<i>\$0</i> \$0
• Number of UH Employees Providing Services to Foundations	<i>0</i> 0	<i>4</i> 4	<i>8</i> 8	<i>8</i> 8	<i>1</i> 1	<i>0</i> 0	<i>0</i> 0
• Reimbursement to UH for Salaries and Wages	<i>\$0</i> \$0	<i>\$1,369</i> \$1,369	<i>\$319,947</i> \$319,947	<i>\$26,659</i> \$26,659	<i>\$25,615</i> \$25,615	<i>\$0</i> \$0	<i>\$0</i> \$0
• Accounting & Auditing Fees	<i>\$20,300</i> \$22,685	<i>\$17,285</i> \$24,235	<i>\$32,175</i> \$0	<i>\$35,835</i> \$17,207	<i>\$12,027</i> \$23,684	<i>\$32,720</i> \$30,785	<i>\$49,000</i> \$0
• Gifts in Kind and Other	<i>\$79,497</i> \$69,856	<i>\$1,710,908</i> \$1,844,350	<i>\$3,208,891</i> \$2,119,152	<i>\$2,259,615</i> \$1,622,021	<i>\$565,550</i> \$513,698	<i>\$2,148,128</i> \$1,021,491	<i>\$7,415</i> \$4,256
• Investment Management Fees	<i>\$217,990</i> \$142,149	<i>\$0</i> \$0	<i>\$31,771</i> \$32,996	<i>\$0</i> \$0	<i>\$20,198</i> \$0	<i>\$44,823</i> \$28,568	<i>\$0</i> \$0
Total Cost of Operations	<i>\$765,237</i> \$703,710	<i>\$1,773,944</i> \$1,917,028	<i>\$3,281,337</i> \$2,924,015	<i>\$2,295,450</i> \$1,639,228	<i>\$597,775</i> \$537,382	<i>\$2,495,052</i> \$2,307,264	<i>\$56,415</i> \$4,256

(1) Leased employees are not classified as salaries and wages in the IRS Form 990.

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

**COMMITTEE:** Audit and Compliance

**ITEM:** Update on Internal Audit Follow-up Database

**DATE PREVIOUSLY SUBMITTED:**

**SUMMARY:**

Update on Internal Audit Follow-up Database – the attached Internal Audit Follow-up Database lists all outstanding management action items as of April 27, 2011. A column has been added to the database to identify the issue type (compliance, cost center management, or internal control). The one page summary categorizes each of the 61 items in the database by issue type.

**SUPPORTING**

**DOCUMENTATION:** Follow-up Report on Internal Audit Follow-up Data Base

**FISCAL NOTE:**

**RECOMMENDATION/  
ACTION REQUESTED:** Information

**COMPONENT:** University of Houston System

*Don Guyton*

CHIEF AUDIT EXECUTIVE

Don Guyton

*4/29/11*

DATE

*Renu Khator*

CHANCELLOR

Renu Khator

*5/6/11*

DATE

University of Houston System  
Internal Auditing Department  
Follow-up Database  
As of April 27, 2011  
-Analysis-

Attached is the follow-up database of all management action items to be implemented for internal and external audit reports, including the reports presented to the Audit & Compliance Committee of the Board of Regents at their meeting on May 18, 2011. The attached analysis is sorted from the oldest to the newest action item. The "Issue" column at the far right side of the analysis lists the type of action item to be implemented as illustrated in the table below.

<u>Management Action Items - Issue Type</u>	Number of Items			Total
	<u>Risk Levels</u>			
	Low	Medium	High	
Compliance Issues				
UHS Policies	11	1		12
Federal Regulations	7	2		9
Texas Information Technology Statutes	5	2		7
Texas Education Code	1			1
THECB Rules	2	2	1	5
Athletics Policies (NCAA Rules)	3	1		4
Cost Center Management - Cleanup	14			14
Establish / Enhance Internal Controls	<u>6</u>	<u>2</u>	<u>1</u>	<u>9</u>
	<u>49</u>	<u>10</u>	<u>2</u>	<u>61</u>

Many of the action items listed under the "Cost Center Management – Cleanup" issue type should be resolved by UH Division of Research working with the Colleges to clear expired grant cost centers. The two high risk areas relate to compliance with the Texas Higher Education Coordinating Board rules and establishing a monitoring mechanism in one of the UH divisions. Progress is being made on both of these high risk areas.

**University of Houston System  
Internal Auditing Department**

**Follow-up Database  
as of April 27, 2011**

**AUDIT – 8.1.2**

Internal Audit Report Number	Report Title	Action No.	Total Actions	Est. Compl. Date	Responsibility For Action		Action To Be Taken	Issue
					Name / Title	Entity		
					Risk Level: <b>High</b> <b>Medium</b> <b>Low</b>			
AR1999-08	UH, Physical Plant Department, 3rd FU	1b	4	8/31/2012	Carla Ponzio, Interim Executive Director of Payroll / HRMS	UH/UHS	Implement a campus-wide timekeeping system after the PeopleSoft system is upgraded.	Establish / Enhance Internal Controls.
AR2008-17	College of Engineering, Departmental Reviews	4h	25	6/1/2011	Kal Marchi Associate Director Research Financial Services	UH	Restore deficit balances to zero or positive amounts and implement procedures to help prevent spending funds that are not budgeted.	Cost Center Management - Cleanup
AR2009-02	UH College of Technology Departmental Reviews	4b	6	8/31/2013	Eduardo Cortes Department Business Administrator TMAC	UH	Restore deficit fund balances to zero or positive amounts and implement procedures to prevent spending funds that are not available	Cost Center Management - Cleanup
AR2009-12	College of Natural Sciences & Mathematics Departmental Reviews	21g	48	6/30/2011	Jennifer Chin-Davis Department Business Administrator Physics Department	UH	Restore deficit grant cost center budgetary balances to zero or positive amounts and implement procedures to help prevent spending funds that are not budgeted.	Cost Center Management - Cleanup
AR2009-12	College of Natural Sciences & Mathematics Departmental Reviews	22g	48	6/30/2011	Jennifer Chin-Davis Department Business Administrator Physics Department	UH	Work with the Office of Contracts and Grants to close expired project cost centers and with the Budget Office to close expired HEAF cost centers.	Cost Center Management - Cleanup
AR2009-18	Departmental Reviews UH Division of Administration and Finance	3d	21	8/31/2011	Esmeralda Valdez Director Business Services	UH	Restore deficit fund balances to zero or positive amounts and implement procedures to prevent spending funds that are not available	Cost Center Management - Cleanup
AR2009-18	Departmental Reviews UH Division of Administration and Finance	15b	21	8/31/2011	Lisa Castro Department Business Administrator Plant Operations	UH	Restore deficit budgetary balances to zero or positive amounts and implement procedures to prevent spending funds that are not available	Cost Center Management - Cleanup
AR2009-20	Information Security Standards	3b	7	8/31/2011	George Gray Interim Bus. Admin. Plant Operations 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.	Compliance with Texas Information Technology Statutes (TAC 202)
AR2009-22	UHS Facilities Development Project	2(b)d	24	8/31/2011	Spencer Moore, Executive Director, FP&C	UHS	Develop and implement department policies and procedures for all aspects of construction project management (major projects) to help ensure adequate management oversight and compliance with THECB rules.	Compliance with THECB rules.

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					Name / Title	Entity		
					Risk Level: <span>High</span> <span>Medium</span> <span>Low</span>			
AR2009-22 (PRT)	UHS Facilities Development Project	15b	24	11/1/2011	Chris McCall AVP Facilities Management	UHD	Perform campus-wide room walk-through, to ensure that reported room area (square footage) is accurate and verifiable	Compliance with THECB rules
AR2009-22 (PRT)	UHS Facilities Development Project	17c	24	8/31/2011	Lillian Wanjagi Director, Facilities Information	UH	Perform institutional audit of room number signage and incorporate a completion schedule for room signage in the space inventory control system documentation.	Compliance with THECB rules.
AR2009-22 (PRT)	UHS Facilities Development Project	18c	24	8/31/2011	Lillian Wanjagi Director, Facilities Information	UH	Perform walkthroughs to verify room use codes accurately reflect actual use and update changes as necessary.	Compliance with THECB rules.
AR2009-22 (PRT)	UHS Facilities Development Project	19c	24	8/31/2011	Lillian Wanjagi Director, Facilities Information	UH	Perform walkthroughs to verify room type codes accurately reflect actual use and update changes as necessary.	Compliance with THECB rules.
AR2010-02	Information Security Standards	3a	8	8/31/2012	John Cordary Associate Vice President for Finance	UHCL	Work with University Management to update UHCL's Business Continuity Plan to include all business functions of the University, in accordance with TAC 202.	Compliance with Texas Information Technology Statutes (TAC 202)
AR2010-03	Information Security Standards	1d	11	5/31/2011	Mary Dickerson Executive Director, IT Security	UH	Update SAM 07.B.01, System Development Life Cycle and SAM 07.B.02, Software Documentation to address security requirements in all phases of development and acquisition of information resources, in accordance with TAC 202.	Compliance with Texas Information Technology Statutes (TAC 202)
AR2010-03	Information Security Standards	3b	11	8/31/2011	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.	Compliance with Texas Information Technology Statutes (TAC 202)
AR2010-03	Information Security Standards	5d	11	5/1/2011	Mary Dickerson Executive Director, IT Security	UH	Facilitate University-wide coordination and planning related to management of college/division IT resources by developing technical guidelines and reference materials, providing training to college/division based technical support staff, and coordinating meetings of college/division information resource managers to help ensure IT resources are adequately managed at the college/division level, including compliance with TAC 202.	Compliance with Texas Information Technology Statutes (TAC 202)

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Internal Audit Report Number	Report Title	Action No.	Total Actions	Est. Compl. Date	Responsibility For Action			Action To Be Taken	Issue
					Name / Title		Entity		
					Risk Level: <b>High</b> <b>Medium</b> <b>Low</b>				
AR2010-03	Information Security Standards	6d	11	5/1/2011	Mary Dickerson Executive Director, IT Security	UH	Perform and document a comprehensive security risk analysis of information resources, develop a security risk management plan, and obtain approval of the plan from the President (or her designee).	Compliance with Texas Information Technology Statutes (TAC 202)	
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	12e	114	12/31/2011	Steven Wallace Director Theater Department	UH	Restore deficit balances to zero or positive amounts and implement procedures to help prevent spending funds that are not budgeted.	Cost Center Management - Cleanup	
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	13e	114	12/31/2011	Steven Wallace Director Theater Department	UH	Restore project/grant cost center budgetary balances to zero or positive amounts and work with the appropriate office to close expired project/grant cost centers.	Cost Center Management - Cleanup	
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	26d	114	12/31/2011	Geoffrey Pierce Department Business Administrator Communication Sciences & Disorders	UH	Restore deficit budgetary balances to zero or positive amounts, implement procedures to prevent spending funds that are not available, and work with the appropriate office to close expired project/grant cost centers.	Cost Center Management - Cleanup	
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	39c	114	12/31/2011	Linda Garza & Elizabeth Shepard Department Business Administrators Dean's Office	UH	Restore deficit balances to zero or positive amounts and implement procedures to help prevent spending funds that are not budgeted.	Cost Center Management - Cleanup	
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	67b	114	12/31/2011	Lynn Smith Department Business Administrator Anthropology Department	UH	Restore deficit budgetary balances to zero or positive amounts and implement procedures to prevent spending funds that are not available, in accordance with university policies.	Cost Center Management - Cleanup	
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	78d	114	12/31/2011	Isaac Davis Department Business Administrator Psychology Department	UH	Restore deficit budgetary balances to zero or positive amounts, implement procedures to prevent spending funds that are not available, and work with the appropriate office to close expired project/grant cost centers.	Cost Center Management - Cleanup	
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	89b	114	12/31/2011	Linda Garza & Elizabeth Shepard Department Business Administrators Dean's Office	UH	Restore deficit balances to zero or positive amounts and implement procedures to help prevent spending funds that are not budgeted. (Religious Studies)	Cost Center Management - Cleanup	

Internal Audit Report Number	Report Title	Action No.	Total Actions	Est. Compl. Date	Responsibility For Action		Action To Be Taken	Issue
					Name / Title	Entity		
					Risk Level: <b>High</b> <b>Medium</b> <b>Low</b>			
AR2010-07	College of Liberal Arts & Social Sciences Departmental Reviews	111b	114	5/31/2011	Norma Quinones Department Business Administrator Hispanic Studies Department	UH	Modify the fee purpose for the Language Acquisition Center fee to include expenditures that support the maintenance and operations of the Center, such as business meals and conference fees.	Compliance with Texas Education Code.
AR2010-17	Departmental Reviews UH Law Center	1a	13	2/1/2012	Mybao Nguyen Director of College Business Operations	UH	Ensure timely completion of all required training, in accordance with university policies	Compliance with UHS policies.
AR2010-26	Athletics NCAA Rules- Compliance	1a	5	5/31/2011	Kevin Klotz Associate Athletics Director of Compliance & Eligibility Athletics Department	UH	Ensure that recruiting records are collected and maintained for all prospective student athletes, in accordance with the Athletic Compliance policies and procedures.	Compliance with Athletics Policies (NCAA rules).
AR2010-26	Athletics NCAA Rules- Compliance	2a	5	5/31/2011	T.J. Meagher Associate Athletics Director for Internal Operations/Chief Financial Officer Athletics Department	UH	Update the Athletic Travel Policy to help ensure that it is in agreement with the NCAA regulations.	Compliance with Athletics Policies (NCAA rules).
AR2010-26	Athletics NCAA Rules- Compliance	3a	5	5/31/2011	Kevin Klotz Associate Athletics Director of Compliance & Eligibility Athletics Department	UH	Work with the Sport Administrators to obtain all camp and clinic documentation to conduct a thorough review of the administration of the camp/clinic in order to make the Athletics Director, camp director or head coach and the camp director's or head coach's direct supervisor aware of any concerns related to the administration of the camp/clinic, including potential violations of NCAA legislation, in accordance with Athletic Compliance policies and procedures.	Compliance with Athletics Policies (NCAA rules).

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**AUDIT – 8.1.6**

Internal Audit Report Number	Report Title	Action No.	Total Actions	Est. Compl. Date	Responsibility For Action		Action To Be Taken	Issue
					Name / Title	Entity		
					Risk Level: <b>High</b> <b>Medium</b> <b>Low</b>			
AR2010-26	Athletics NCAA Rules- Compliance	4a	5	5/31/2011	T.J. Meagher Associate Athletics Director for Internal Operations/Chief Financial Officer Athletics Department	UH	Develop procedures to ensure that all funds received are deposited into the institution's bank accounts and all revenues and expenditures are recorded in the University's financial system, and that a reconciliation of camp/clinic records is performed to help ensure all camp/clinic revenues and expenditures are recorded in the University's financial system, in accordance with university policies.	Compliance with UHS policies.
AR2010-26	Athletics NCAA Rules- Compliance	5a	5	5/31/2011	Kevin Klotz Associate Athletics Director of Compliance & Eligibility Athletics Department	UH	Obtain documented prior written approval to operate all camps/clinics and on Student-Athlete Employment Approval Forms for all student-athletes that plan to work at camps/clinics, in accordance with Athletic Compliance policies and procedures.	Compliance with Athletics Policies (NCAA rules)
AR2011-05	UH, Division of Student Affairs Departmental Reviews	1	1	8/31/2011	Diane Murphy Associate VP, Student Affairs Administration VPSA	UH	Implement a monitoring mechanism to help ensure all business functions are adequately performed, in accordance with university procedures.	Establish / Enhance Internal Controls.
AR2011-11	College of Optometry, Departmental Review	2	3	12/31/2011	Mary Juarez College Business Administrator	UH	Work with the Division of Research to deactivate expired grant cost centers.	Cost Center Management - Cleanup
AR2011-11	College of Optometry, Departmental Review	3	3	9/30/2011	Mary Juarez College Business Administrator	UH	Reduce scholarship cost center equity balances (award scholarships) to help ensure that the year-end balances do not exceed total award commitments plus a reserve of 25% of the funds received in the previous fiscal year, in accordance with university policies.	Compliance with UHS policies.
AR2011-16	Departmental Reviews UHD Office of the Vice President for Academic Affairs and Provost	1	1	6/30/2011	Elaine Pearson Division Business Administrator III Office of the Vice President for Academic Affairs and Provost	UHD	Develop and implement procedures to require the formal review and approval of fees charged for new continuing education courses and for the annual review of existing courses to help ensure fees are sufficient to recover the costs of providing the course.	Compliance with UHS policies.

Internal Audit Report Number	Report Title	Action No.	Total Actions	Est. Compl. Date	Responsibility For Action			Action To Be Taken	Issue
					Name / Title	Entity	Risk Level: <b>High</b> <b>Medium</b> <b>Low</b>		
AR2011-17	Financial Aid, Pell Grants	1	1	8/31/2011	Carolyn Mallory Financial Aid Director Office of Financial Aid	UHV	Work with the other campus Financial Aid Directors and with Enrollment Management Production Support to develop a process to identify, log, and review changes to critical data.	Compliance with Federal Regulations.	
AR2011-18	Financial Aid, Pell Grants	1	1	8/31/2011	Billy Satterfield Student Financial Aid Executive Director Financial Aid Department	UHCL	Work with the other campus Financial Aid Directors and with Enrollment Management Production Support to develop a process to identify, log, and review changes to critical data.	Compliance with Federal Regulations.	
AR2011-19	Financial Aid, Pell Grants	1a	4	4/26/2011	LaTasha Goudeau Director of Financial Aid Financial Aid Department	UHD	Determine and implement appropriate access roles in Banner Financial Aid to help ensure that employees' access is based on their job responsibilities.	Compliance with Federal Regulations.	
AR2011-19	Financial Aid, Pell Grants	2	4	8/31/2011	LaTasha Goudeau Director of Financial Aid Financial Aid Department	UHD	Work with the other campus Financial Aid Directors and SunGard consultants to develop a process to identify, log, and review changes to critical data.	Compliance with Federal Regulations.	
AR2011-19	Financial Aid, Pell Grants	3a	4	4/26/2011	LaTasha Goudeau Director of Financial Aid Financial Aid Department	UHD	Implement functionality in Banner Financial Aid to automatically log users off the system after a specified time period of inactivity.	Compliance with Federal Regulations.	
AR2011-19	Financial Aid, Pell Grants	4	4	8/31/2011	LaTasha Goudeau Director of Financial Aid Financial Aid Department	UHD	Implement procedures to review updates/changes to Banner Financial Aid software to help ensure it is working as intended.	Compliance with Federal Regulations.	
AR2011-20	Financial Aid, Scholarships	1	2	5/1/2011	Izzy Anderson Director of Scholarship Services, Grants and Fund Management Office of Scholarships and Financial Aid	UH	Develop procedures to help ensure funds within the cost centers are fully disbursed, including steps to be taken for any surplus funds.	Establish / Enhance Internal Controls.	
AR2011-20	Financial Aid, Scholarships	2	2	5/1/2011	Izzy Anderson Director of Scholarship Services, Grants and Fund Management Office of Scholarships and Financial Aid	UH	Develop procedures for budgeting cost centers expected to be disbursed during the school term, including steps to be taken due to a shortage of funds within the scholarship and/or lack of qualified candidates.	Establish / Enhance Internal Controls.	

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**AUDIT – 8.1.8**

Internal Audit Report Number	Report Title	Action No.	Total Actions	Est. Compl. Date	Responsibility For Action			Action To Be Taken	Issue
					Name / Title		Entity		
					Risk Level: <b>High</b> <b>Medium</b> <b>Low</b>				
AR2011-22	Office of Academic Affairs and Provost Departmental Reviews	1	1	8/31/11	John Cordary Associate Vice President for Finance	UHCL	Create a reserve for doubtful accounts, in accordance with university policies. (Student Life)	Compliance with UHS policies.	
AR2011-23	Executive and Foreign Travel, All Components	1	1	8/31/2011	John Cordary, Associate Vice President for Finance	UHCL	Modify travel guidelines to address all aspects of the System Business Travel Policy, including the approval of the President's travel expenditures by the Chancellor or designee.	Compliance with UHS policies.	
AR2011-24	UH Research Administration	1	6	8/31/2011	Elizabeth Anderson Fletcher, Assoc. VC/VP for Research & Technology Transfer, Division of Research	UH	Develop procedures to monitor grant cost centers to help ensure that deficit budgets are addressed in a timely manner.	Establish / Enhance Internal Controls.	
AR2011-24	UH Research Administration	2	6	8/31/2011	Elizabeth Anderson Fletcher, Assoc. VC/VP for Research & Technology Transfer, Division of Research	UH	Develop procedures to help ensure that expired grant cost centers are closed in a timely manner	Establish / Enhance Internal Controls.	
AR2011-24	UH Research Administration	3	6	8/31/2011	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.	Establish / Enhance Internal Controls.	
AR2011-24	UH Research Administration	4	6	4/30/2012	VC/VP for Research & Technology Transfer	UH	Review the IDC allocation model as part of the annual university budget development process.	Establish / Enhance Internal Controls.	
AR2011-24	UH Research Administration	5	6	8/31/2011	Mike Glisson, Controller, Administration & Finance	UH	Amend SAM 03.A.03, Business Travel, to address the export control requirements.	Compliance with Federal Regulations.	
AR2011-24	UH Research Administration	6	6	5/31/2011	Elizabeth Anderson Fletcher, Assoc. VC/VP for Research & Technology Transfer, Division of Research	UH	Modify the "Request to take UH Computers & Software out of the US" form to address the appropriate disclosures.	Compliance with Federal Regulations.	
AR2011-25	Athletics Department, Endowments	1	3	8/31/2011	Beth Schaefer Stewardship Reporting Manager	UH	Work with the Athletics Department to finalize the endowment agreements or create a Memorandum of Understanding, as appropriate.	Compliance with UHS policies	

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					Risk Level: <span>High</span> <span>Medium</span> <span>Low</span>			
AR2011-25	Athletics Department, Endowments	2	3	7/1/2011	Jeramiah Dickey Associate Athletics Director for Development	UH	Notify on an annual basis, endowment restrictions to all Athletic personnel responsible for endowments to help ensure compliance with terms.	Compliance with UHS policies.
					T.J. Meagher Associate Athletics Director for Internal Operations/Chief Financial Officer Athletics Department			
AR2011-25	Athletics Department, Endowments	3	3	7/1/2011	Jeramiah Dickey Associate Athletics Director for Development	UH	Work with University Advancement to modify the terms of the endowment that has changed.	Compliance with UHS policies.
AR2011-26	College of Education, Endowments	1	3	3/31/2012	Dorita Hatchett Development Director College of Education	UH	Identify other methods to attract qualified applicants in order to award more scholarships.	Compliance with UHS policies.
AR2011-26	College of Education, Endowments	2	3	6/30/2011	Dorita Hatchett Development Director College of Education	UH	Notify, on annual basis, endowment restrictions to all personnel responsible for the endowments.	Compliance with UHS policies.
					Billy Nguyen College Business Adminiistrator College of Education			
AR2011-26	College of Education, Endowments	3	3	8/31/2011	Beth Schaefer Stewardship Reporting Manager University Advancement	UH	Work with the College to finalize endowment agreements. (College of Education)	Compliance with UHS policies.
CCM-0901	Calhoun Lofts Residence Hall Interim Construction Audit	1c	15	8/31/2011	Spencer Moore, Executive Director, FP&C	UH	Modify/develop departmental policies and procedures for construction management to address process for audits and related protocol	Establish / Enhance Internal Controls.
SAO Report #05-010	The Protection of Confidential Information and Critical Systems	20k	25	8/1/2011	Malcolm Davis Executive Director for Public Safety - Chief of Police	UH	Review and modify, as necessary, the existing comprehensive emergency plan/business continuity plan to ensure that it adequately addresses the requirements in Texas Administrative Code, Section 202, Business Continuity Plan Elements.	Compliance with Texas Information Technology Statutes (TAC 202)

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					Risk Level: <span>High</span> <span>Medium</span> <span>Low</span>			
SAO Report #11-316	Federal Portion of the Statewide Single Audit, FY2010	6a	7	4/26/2011	LaTasha Goudeau Director of Financial Aid Financial Aid Department	UHD	Implement separation of duties between application, database and servers in the new Banner financial aid application to ensure that no one individual will have control of the business process.	Compliance with Federal Regulations.

AUDIT – 8.1.10