University of Houston System
Annual Fraud Prevention and Awareness Report
FY 2011

The Audit Committee Planner, Item 5.05, requires the Committee to evaluate management's identification of fraud risks, the implementation of fraud prevention and detection measures, and the creation of the appropriate "tone at the top" by reviewing an annual report which summarizes the fraud risk analyses and related risk mitigation strategies. Listed below are the reports from each component.

University of Houston and UH System Administration

In October 2011, UH and UHSA departments completed their seventh annual online Department Fraud Risk Survey to identify internal controls within their department that need to be strengthened in order to prevent and detect fraud. In addition, processing units and other offices that have a far reaching effect on campus operations (Purchasing, Payroll, Information Technology, etc.) completed an Institutional Fraud Risk Survey to identify procedures within their unit that may need improvement. The fraud risk surveys are completed annually to remind administrators and unit heads of their responsibilities, so that they remain vigilant in fraud prevention and detection.

During October and November 2011, all UH System employees are required to complete online Fraud Prevention and Awareness training, as well as Code of Ethics training. This is the fifth year that training has been required for fraud prevention and ethics. The purpose of this training is to raise awareness of appropriate and inappropriate behavior for UH System employees, encourage fraud prevention and detection, and encourage reporting of suspected fraudulent activity.

Procurement cards (P-Cards) reduce the time and effort required to make small-dollar purchases and decrease the number of employee reimbursements. However, P-Card transactions must be carefully reviewed to ensure all transactions are appropriate and documented. In addition to reviews within each department, Accounts Payable reviews selected P-Card transactions for appropriateness and documentation. All P-Card cardholders are required to complete online training prior to receiving a P-Card and annually thereafter, and administrators who review P-Card transactions are also required to complete annual training as well. P-Card applicants are also required to pass a criminal history investigation prior to receiving a P-Card.

Finally, UH Finance maintains a link to fraud and institutional compliance frequently asked questions on the Finance home page (www.uh.edu/finance), which includes instructions for reporting suspected fraud and non-compliance through the MySafeCampus telephone hotline or web link.

University of Houston – Clear Lake

The University of Houston - Clear Lake continues to expand its fraud prevention and awareness activities with the formal establishment of the campus Institutional Compliance program on October 29, 2002. The Vice President of Administration and Finance is designated as the campus contact person for fraud and prevention.

The Fraud Triangle includes three elements - Pressure, Rationalization and Opportunity, that must be present for a fraud to occur. UHCL's goal is to help create and maintain an environment hostile to fraud. Fraud prevention continues to be a top priority for the campus and is taken very seriously. Raising staff and student awareness of the risks of internal/external fraud and the importance of compliance with internal control procedures is vital in preventing fraud. The main purpose of the fraud risk assessment report is:

- To ensure that UHCL has adequate procedures and internal controls in place designed to prevent, detect and deter fraud
- Identify potential risk areas and develop administrative and departmental action items for minimizing these risks; and
- Highlight UHCL's oversight function designed to prevent, detect and deter fraud.

In FY 2011 Fraud Risk Assessment was conducted in the academic, administrative and finance areas – Schools, Departments, General Accounting, Accounts Payable, Travel, Asset Management, Petty Cash and Cash Receipts, General Purchasing, Human Resources, Payroll, Computing and were confirmed with the University Business Coordinators as existing or not existing along with a fraud risk assessment rating system. Using the Fraud risk assessment rating system:

- 1 - Very low (Provides no apparent opportunity for fraudulent activity excluding the existence of collusion and requiring no action)
- 3 – Low (Provides a low level of opportunity for fraudulent activity and requires no action except for weakness awareness)
- 5 – Moderate (Provides a moderate opportunity for fraudulent activity and requires a design strategy for improvement)
- 7 – High (Provides a high opportunity for fraudulent activity and requires design and implementation of strategy for improvement in the near future)
- 9 – Very High (Provides a very high opportunity for fraudulent activity and requires design and implementation of strategy for improvement immediately)

Fraud Risk Assessment Results

Fraud Risk Category	Number of Control Measures Rated	Sum of Risk Assessment Rating	Average Risk Assessment Rating
Information	4	4	1.00
General Accounting	7	7	1.00
General Resources	8	8	1.00
Assets	5	5	1.00
Petty Cash and Cash Receipts	9	9	1.00
Inventory	7	7	1.00
Accounts Payable and Travel	7	8	1.14
General Purchasing	4	4	1.00
Purchase of Services	8	8	1.00
Human Resources & Payroll	12	12	1.00
Computing	8	10	1.25
Totals	**79**	**82**	
Overall Fraud Risk Exposure (Very Low to Low)		**1.04**	

Based on the fraud risk assessment results, no significant problems or trends were noted. The University as of August 31, 2011, maintains an overall fraud risk assessment rating of 1.04 which is "Very Low".

In FY 2011 the University of Houston – Clear Lake Compliance Committee lead by Harry Stenvall, Director Risk Management met on a quarterly basis to discuss the identification and documentation of the major risks associated with the operations of each individual department. Based on goals for FY 2011 the Committee was presented with a report on objective; risk and exposure; operating controls and risk assessment rating associated with Laboratory Safety; Property Handling and the Administration and Finance audit items. The Committee also received an online Compliance Program Power Point Presentation on "Why we sign an Acknowledgement Form". In the month of December, 2010 the Compliance committee attended a presentation by Mr. Gordon Massie on "Confronting Fraud at AIG". The presentation not only hi-lighted the accounting practices for high-yield bonds of AIG but also reinforced in understanding the warning signs of fraud and key actions that one can take to protect the University and decrease the risk of fraud.

The University continues to encourage and educate staff and students on the Institutional compliance program, My Safe Campus hotline and My Safe Campus on-line reporting. All new employees receive this information during New Employee Orientation. In Fiscal Year 2011 all employees received an online Fraud awareness training; Code of Ethics Training and, Information Security Awareness.

UHCL's Review of selected operations included Procurement card; Asset Management; Petty Cash; Change Fund and Inventory of Service Departments.

- P-Card is administered by the Contract Administration. P-Card administrator checks P-card charges on a regular basis each month. Invoices and supporting documentation is required for all P-card charges. P-Card charges are reviewed by Departmental Staff, Business Coordinator, and Accounts Payable Staff before it is submitted for final approval. A three tier system established to mitigate any fraud that may occur with an unauthorized P-card transaction, and or a fictitious vendor. P-Card training is mandatory for all P-Card holders, P-Card Administrator, P-Card processors, Accounts Payable Reviewers, and final approvers.

- Asset Management - 65 Departmental Property Custodians were trained and equipped on managing the assets of the institution and were educated on the fraud risks and related mitigating strategies to ensure there is no misuse/misappropriation of controlled and capital assets of the institution. Random physical inventory audits were conducted on identified assets of selected schools and departments for appropriate documentation, location verification, and usage of the asset. 100% of the assets audited were identified and accounted for.

- Audits were conducted on petty cash and change funds throughout selected departments that collect cash payment from customers. The end result being a fraud risk assessment rating of "Low".

- Audits were also conducted on service departments – Health and Service; Copy Service, Print Shop; Central Stores. The end result being a fraud risk assessment rating of "Low".

University of Houston-Downtown

All UHD departments participated in the annual Department Fraud Prevention Survey during October/November of 2010. The survey is intended to identify internal controls within each department that need to be strengthened in order to prevent and detect fraud and to remind administrators and department heads of their responsibility to remain vigilant in fraud prevention and detection throughout the upcoming year. No significant problems or trends were noted in the results of the UHD Annual Fraud Prevention Survey.

UHD's purchases via P-cards averaged $162,000/month in FY11. The $38,000/month decline versus the prior year (19%) was heavily influenced by budget cuts and a general decrease in spending due to the economic situation. Examples of P-card fraud occurring in both the public and private sectors remain abundant. Recognizing this exposure, UHD has 1.5 positions in its Purchasing department that are responsible for oversight of the P-Card program. Questionable charges are subject to multiple levels of review. Based upon the severity or repetition of the violation, disciplinary action may include an e-mail or verbal warning, retraining, suspension of

the card, cancellation of the card, reimbursement to the University and/or termination of employment from the University.

In the Spring of 2011, UHD replaced its long-serving Powerfaids Financial Aid system with Banner's Financial Aid module. Banner Financial Aid offers more discrete, role-based access control than that offered by Powerfaids. This has enhanced security and helped to further discourage fraud by providing for more accountability and control over who has access to view and make changes to information in various parts of the system.

New employee orientation includes a 15 minute video on Compliance and MySafeCampus (http://devstaging.uhd.edu/facultyandstaff/compliance/videos/UHDRMC10_P1_MSCampus_May2010_1024_Broadband.ram). The video addresses the employee's role in compliance, defines key elements and gives examples of fraud, provides options of how to report fraud and explains how to use the MySafeCampus anonymous reporting system.

In December of 2010, UHD hosted guest speaker Gordon Massie, who discussed the subject of his upcoming book "The Whistle Blower's Dilemma: Confronting Fraud at AIG". Mr. Massie was one of the highest ranked AIG executives in the Houston office when he discovered fraud in his company. During his presentation, he shared his story of the company, its culture, his decision to blow the whistle, what happened next and the wisdoms gained from his experience. This presentation was open to UHS employees.

In February of 2011, the Administration and Finance division 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). This webinar was attended by 50 UHD employees who are primarily involved with business/budget/financial administration.

University of Houston-Victoria

UHV continues the use of a variety of strategies within the framework of the campus Institutional Compliance Program in its efforts to prevent fraud and raise fraud awareness.

In FY11, new employee orientation sessions continued to include segments focused in explaining to new employees the importance of their role in fraud prevention and the considerable damaging effects that fraud can have on the university and the individual. The intent is that new employees have a better understanding of fraud in an educational setting and know they should report fraud when they become aware of or suspect it.

The Mandatory and Role Based Training program continues to be an important part of the campus program. The training modules focusing on fraud prevention and awareness included Fraud Awareness, Code of Ethics, Secure Our Systems and Credit Card Data Security (a role based module). The Department of Training and Development managed the training program and achieved a participation/completion rate of 100%.

Employees and students continue to be reminded monthly via the monthly Campus Incident Reports newsletter (http://www.uhv.edu/business/safety/manual/Incident_Log/Incidlog.aspx) to report suspected fraud or other non-compliance issues through MySafeCampus. In FY10, the campus implemented the widespread use of posters campus wide as another method of making employees and students aware of fraud and ethics violations as well as MySafeCampus and other reporting options.

UHV Review of Select Operations

- Identity Theft Program - The fiscal year just ended marked the 2nd year of the campus Identity Theft Program which was implemented in April 2009 to help prevent fraud associated with identity theft.
- Departmental Fraud Risk Survey - The most recent Departmental Fraud Risk Survey was completed in October 2010. All University departments completed the survey and compliance issues were addressed. The survey increases departmental awareness of university policies and procedures and is intended to help unit heads become aware of weaknesses in their operations and internal controls that can lead to fraud. (The FY12 Fraud/Risk Survey is scheduled for October 2011.)
- Financial Aid Program - A significant managed activity at UHV and most universities is the proper administration of federal, state and campus student financial aid grants, loans and scholarships in the Financial Aid Department. In FY11, approximately $27.6 million of financial aid was disbursed involving over 2930 students. Risk is managed through operational and internal controls reinforced with frequent audit oversight. Annually each Financial Aid employee is required to sign a Standards of Conduct and Conflict of Interest Certification acknowledging awareness of prohibited activities and the responsibility to report any conflict of interest, violations of law, fraud, or other irregularities promptly.
- Expenditures of State and Local Funds (including grant funds) – The University budget for FY11 included state appropriated and local funds (all ledgers) of $49.5 million (up from 42.7 for FY10). As confirmed by the Comptroller and the Director, Human Resources, there were no confirmed incidents of fraud in the expenditure of state and local funds for vendor voucher payments, employee reimbursements or payroll during this reporting period.
- Procurement Card Program – There were no known or reported allegations of employee fraud involving P-Card expenditures. In FY11, $1,175,000 of expenditures representing over 4,750 transactions was processed by 105 active cardholders. Annual Credit Card Data Security and P-Card refresher training continues to be required and each cardholder must acknowledge by signature their responsibilities as a departmental purchaser. New P-Card applicants are required to pass a criminal history investigation prior to issuance of a card.

UHV summary for FY11:

- Hotline or other reports of non-compliance: 4
- Incidents found to be fraud related: None
- Confirmed instances of Personal Identity theft: None
- Confirmed instances of Financial Aid related fraud: None

- Confirmed instances of Procurement Card fraud: None
- Confirmed Instances of Payroll related fraud: None
- Confirmed instances of Voucher related fraud: None