UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON

C.T. BAUER COLLEGE OF BUSINESS DEPARTMENTAL REVIEWS

REPORT NO. AR2018-13

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

MEMORANDUM

TO: Mr. Roger F. Welder
Chair, Audit and Compliance Committee

Dr. Renu Khator
Chancellor/President, UHS/UH

FROM: Don F. Guyton
Chief Audit Executive

DATE: February 20, 2018

SUBJ: Internal Audit Report – UH C.T. Bauer College of Business, Departmental Reviews

I have attached for your review the final draft of the above referenced internal audit report. This report has been distributed to/discussed with key personnel of the University of Houston and University of Houston System. This report is summarized as follows:

Executive Summary:

The objective of the Departmental Review is to determine whether departments are conducting financial and administrative activities in compliance with university policies. We performed 11 departmental reviews in the C.T. Bauer College of Business. 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 risk exposures and control issues. We noted that the College was not in compliance with certain policies. Management informed us that it would take the necessary actions in order to help prevent reoccurrences of similar instances of non-compliance with university policies.

This audit report is scheduled to be included in the agenda materials for the March 8, 2018, meeting of the Audit and Compliance Committee of the Board of Regents. Please let me know if you have any questions.

Attachment

UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT

UNIVERSITY OF HOUSTON
C.T. BAUER COLLEGE OF BUSINESS
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 11 departmental reviews in the C.T. Bauer College of Business. 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 risk exposures and control issues. We noted that the College was not in compliance with certain policies. Management informed us that it would take the necessary actions in order to help prevent reoccurrences of similar instances of non-compliance with university policies.

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

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

Don F. Guyton
Chief Audit Executive
January 31, 2018

University of Houston System
Internal Auditing Department

University of Houston
C.T Bauer College of Business
Departmental Reviews

COMPLIANCE MATRIX						
Compliance Area	**Dean's Office**	**Accountancy and Taxation**	**Career Services Center**	**Division of Technology**	**DISC**	**Executive Degree Programs**
Management Oversight	✓	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Policies, Procedures, Required Training, And Reporting	✓	✓	✓	✓	✓	✓
Cost Center Management	✓	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Payroll	**(2)**	✓	✓	✓	✓	✓
Human Resources	**(2)**	✓	✓	✓	✓	✓
Change Funds And Cash Receipts	✓	**N/A**	✓	**N/A**	**N/A**	✓
Procurement And Travel Cards	✓	✓	✓	✓	✓	✓
Departmental Expenses	✓	✓	✓	✓	✓	✓
Contract Administration	✓	✓	✓	✓	✓	✓
Property Management	✓	✓	✓	✓	✓	✓
Scholarships	✓	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Research	✓	✓	**N/A**	**N/A**	**N/A**	**N/A**

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

University of Houston System
Internal Auditing Department

University of Houston
C.T Bauer College of Business
Departmental Reviews

COMPLIANCE MATRIX					
Compliance Area	**Finance**	**Management**	**Marketing**	**SBDC**	**Undergraduate Business Program**
Management Oversight	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Policies, Procedures, Required Training, And Reporting	✓	✓	✓	✓	✓
Cost Center Management	**N/A**	**N/A**	**N/A**	✓	**N/A**
Payroll	**(1)**	✓	✓	✓	✓
Human Resources	✓	✓	✓	✓	✓
Change Funds And Cash Receipts	**N/A**	**N/A**	**N/A**	✓	**N/A**
Procurement And Travel Cards	✓	✓	**(1)**	✓	✓
Departmental Expenses	**(1)**	✓	✓	✓	✓
Contract Administration	✓	✓	✓	✓	✓
Property Management	✓	✓	✓	✓	✓
Scholarships	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Research	**N/A**	✓	**N/A**	**N/A**	**N/A**

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

UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT

UNIVERSITY OF HOUSTON
C.T. BAUER COLLEGE OF BUSINESS
DEPARTMENTAL REVIEWS
INSTANCES OF NON-COMPLIANCE

We brought the following instances of non-compliance to management's attention in order that it could take appropriate action. 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.

DEAN'S OFFICE

Payroll

- Hours worked by non-exempt employees were not paid timely.
- Compensatory hours for a non-exempt employee were not timely approved by the employee's supervisor.

Human Resources

- eTermination Checklists were not completed timely.
- A Termination ePAR was not prepared and executed timely.

FINANCE AND GUTIERREZ ENERGY MANAGEMENT INSTITUTE

Payroll

- Hours worked by a non-exempt employee were not paid timely.

Departmental Expenses

- An expense was coded to an incorrect account code.

MARKETING, SALES EXCELLENCE INSTITUTE AND WOLFF CENTER FOR ENTREPRENEURSHIP

Procurement and Travel Cards

- An expense was coded to an incorrect account code.

University of Houston System
Internal Auditing Department

University of Houston
C.T. Bauer College of Business
Background Information

Background Statement provided by the College:

The C.T. Bauer College of Business has been serving the needs of students, Houston, and the nation, for 75 years. Through its five academic departments, the college offers a full-range of undergraduate, masters and doctoral degrees in business. The C. T. Bauer College of Business is fully accredited by the AACSB International – the Association to Advance Collegiate Schools of Business. In August 2000, Houston business leader and philanthropist Charles T. (Ted) Bauer endowed the College of Business with a $40 million gift. In recognition of his generosity, the college was renamed the C. T. Bauer College of Business.

Capitalizing on the business and professional strengths of the Houston community, the mission of the C. T. Bauer College of Business is to conduct research that will shape and address new business realities and to prepare our students for responsible leadership worldwide. Five academic departments, five centers of excellence and several specialty programs provide the framework through which the C. T. Bauer College of Business is able to meet this mission. The College's Accounting and Taxation, Decision and Information Sciences, Finance, Management and Marketing and Entrepreneurship departments house the centers, institutes and programs which allow students to augment their degrees with areas of specialization and certifications.

In addition to Bauer's Bachelor of Business Administration (BBA) program, the C. T. Bauer College of Business also offers graduate and professional programs. These programs include the full-time MBA program, MBA evening program and Executive MBA program as well as Doctoral programs in Accounting, Finance, Management, MIS, Marketing and Supply Chain Management. Within the past few years, the College has expanded the portfolio of MS programs to offer Global Energy Management, Marketing, Supply Chain, Management Information Systems and Accountancy. Upcoming new MS programs include an online Management and Leadership program, as well as Business Analytics. The C. T. Bauer College of Business Executive Education program offers non-degree options designed to enhance mid and senior level executive's capabilities and competencies through customized, research-based courses and workshops developed in collaboration with the College's client companies. In the past two years, open enrollment programs for executive education have been added.

The C. T. Bauer College of Business has invested in faculty, students and curriculum to grow the quality of its programs and reputation for research excellence. The College's research rankings are strong—comparable to schools considered peers for accreditation at universities ranked significantly higher than UH, and comparable to the business schools at Rice University and Texas A&M. Investments in student advising and career placement have made Bauer a destination of choice among undergraduate students. Demand for the C. T. Bauer College of Business BBA degree has grown, and enrollment has grown by more than 10% over the last three years. Bauer's selectivity, first-year retention, and six-year graduation rates are among the highest at UH colleges and compare favorably to those at higher ranked business schools.

The C. T. Bauer College of Business faces significant challenges in maintaining enrollment in graduate professional degrees. This is partly the result of a national decline in demand for graduate business education, and the MBA degree in particular; and partly the result of new competition from universities elsewhere establishing MBA programs in Houston. How we manage this is key to C. T. Bauer College of Business future. National rankings of business schools are very sensitive to measures of student selectivity and student placement. In order to increase enrollment, we must continue to invest in program enhancements that deepen the pool of qualified applicants, offer new degree programs that broaden our appeal to new audiences, offer online delivery, and grow support for co-curricular enrichment and career services.

In the current year, the C. T. Bauer College of Business sustained a university mandated budget cut of $665,969, which has affected both instruction and research. Specifically, this required us to discontinue one of two business minor programs and to take the initial step in a five year plan to downsize or eliminate our PhD program.

Budget/Financial Summary:

During fiscal year 2018, with faculty of 140 FTE and staff of 180 FTE, the College administered 345 cost centers with an overall operating budget of $57,259,896.

The following table presents the fund balance reconciliation for the College for FY 2017:

Beginning Fund Balance (9/1/2016)	$ 15,480,001
Revenues	16,372,431
Expenditures	(57,641,881)
Transfers/Other	41,841,963
Ending Balance (8/31/2017)	$ 16,052,514

UNIVERSITY OF HOUSTON
C.T. BAUER COLLEGE OF BUSINESS
SUMMARY OF REVENUES AND EXPENDITURES

Description	FY 2017	FY 2016
Revenue		
Endowment Income Distribution	$ (2,468,914)	$ (2,144,117)
Federal Grants and Contracts	(3,275,825)	(2,672,125)
Grants and Contracts	0	9,972
Other Fees	(1,960,250)	(2,681,697)
Other Investment Income	(189)	11
Other Revenue Sources	(506,973)	(387,097)
Prviate Gifts, Grants and Contracts	(7,447,197)	(6,224,403)
Sales and Services - Education and General	(683,848)	(456,950)
State Grants and Contracts	(29,235)	(3,588)
State Pass Through - Other State Agencies	0	(1,725,000)
Total Revenue	$ (16,372,431)	$ (16,284,994)
Cost of Goods Sold		
Cost of Goods Sold	$ 3,052	$ (134)
Total Cost of Goods Sold	$ 3,052	$ (134)
Payroll		
Salaries and Wages	$ 39,442,687	$ 39,420,130
Fringe Benefits	4,776,847	4,539,613
Total Payroll	$ 44,219,534	$ 43,959,743
Maintenance and Operations		
Academic Service	$ 250,244	$ 176,182
Advertising Promotion and Public	904,224	983,146
Communication and Transportation	679,700	600,441
Construction Expenses	5,161	3,646
Contracting of Services	1,010,596	1,615,355
Employee Expenses	457,200	372,703
Facilities and Ground Supplies	1,919	23,743
Financial Aid	2,987,152	2,011,483
Financial Tax and License Cost	239,251	431,460
General Services	646,657	492,011
General Supplies	679,069	749,199
Indirect Cost	202,964	116,785
Legal Services	7,200	0
Miscellaneous Supplies and Material	9,137	7,791
Other Recurring Expenses	392,357	624,821
Parts and Furnishing	428,489	644,638
Pass Through	1,474,340	1,285,233
Printing, Copying and Reproduction	207,257	188,619
Professional Services	215,816	650,347
Rental Lease and Royalties	1,306,512	1,129,518
Routine Repair	114,482	106,113
Special Program and Events	399,770	375,699
Travel Expense	762,240	924,006
Utilities and Sanitation	932	1,074
Total Maintenance and Operations	$ 13,382,669	$ 13,514,013
Capital Outlay		
Capital Outlay	$ 36,626	$ 623,772
Total Capital Outlay	$ 36,626	$ 623,772
Total Cost of Goods Sold, Payroll, M&O and Capital Outlay	$ 57,641,881	$ 58,097,394