UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM

STATE BENEFITS PROPORTIONALITY FISCAL YEARS 2015-2017

REPORT NO. AR2018-27

UNIVERSITY OF HOUSTON SYSTEM
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MEMORANDUM

TO: Mr. Peter K. Taaffe
Chair, Audit and Compliance Committee

Dr. Renu Khator
Chancellor/President, UHS/UH

FROM: Don F. Guyton
Chief Audit Executive

DATE: August 8, 2018

SUBJ: Internal Audit Report – UHS State Benefits Proportionality, Fiscal Years 2015-2017

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 System and is summarized as follows:

Executive Summary:

The Internal Auditing Department conducted a review of the Benefits Proportional by Fund Reports (APS 011) for FY 2015 - 2017 submitted by the University of Houston System universities to determine compliance with the State Comptroller's Accounting Policy Statement, Benefits Proportional by Fund. UHS universities did not comply with all requirements of the General Appropriations Act, 85th Legislature, Article IX, Section 6.08, Benefits Paid Proportional by Fund when completing the APS 011 reports. We noted instances of non-compliance related to the following areas: financing sources and state funded benefits for unallowable compensation. Management is in the process of addressing these instances of non-compliance.

This audit report is scheduled to be included in the agenda materials for the August 23, 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 SYSTEM
STATE BENEFITS PROPORTIONALITY

BACKGROUND:

The General Appropriations Act (GAA) 85th Legislature, Conference Committee Report, rider 8, page III-44, directed higher education institutions to conduct an internal audit of benefits proportional by fund for fiscal years 2015, 2016 and 2017, using a methodology approved by the State Auditor's Office (SAO). The GAA requires an institution of higher education's payments for benefits to be proportional to the funding from appropriated general revenue and other sources of funding. GAA Article IX, Section 6.08, Benefits Paid Proportional by Fund states, in order to maximize balances in the General Revenue Fund, payment for benefits paid from appropriated funds shall be proportional to the source of funds, unless otherwise provided. General Revenue Fund appropriations may not be expended for employee benefit costs if the salaries or wages are paid from a source other than the General Revenue Fund. Payments for employee benefit costs for salaries and wages paid from sources other than the General Revenue Fund shall be made in proportion to the source of funds from which the respective salary or wage is paid.

Institutions of higher education are required to file with the State Comptroller's Office and SAO an annual report demonstrating proportionality. The report shall be filed before November 20th following the close of the fiscal year for the salaries, wages and benefits of the preceding year ended August 31. The State Comptroller's Accounting Policy Statement, Benefits Proportional by Fund includes instructions for completing the Benefits Proportional by Fund Report (APS 011 report) to determine the proportionality of an institution's funding from appropriated funds and other sources and to calculate the proper amount of benefit payments to be paid from each of these sources for the prior appropriation year.

OBJECTIVE:

The objective of our review was to determine whether UHS universities were in compliance with the requirements of the GAA Article IX, Section 6.08, Benefits Paid Proportional by Fund.

SCOPE OF WORK:

The scope of the audit included the review of all UHS universities for FY 2015, 2016 and 2017.

We reviewed the APS 011 reports and supporting documentation; compared the information in the reports with information recorded in the UHS accounting system and the Uniform Statewide Accounting System (USAS); interviewed Finance personnel; reviewed State regulations, State Comptroller Office guidelines, and university procedures; and performed other audit procedures, as appropriate.

CONCLUSION:

UHS universities did not comply with all requirements of the General Appropriations Act, 85th Legislature, Article IX, Section 6.08, Benefits Paid Proportional by Fund when completing the APS 011 reports. We noted instances of non-compliance related to the following areas: financing sources and state funded benefits for unallowable compensation. Management is in the process of addressing these instances of non-compliance.

Appendix A lists the instances of non-compliance noted during the audit, a recommendation that will enhance the control environment in the areas, and management's response.

Don F. Guyton
Chief Audit Executive
July 31, 2018

APPENDIX A

INSTANCES OF NON-COMPLIANCE

General Revenue-Dedicated Financing Sources

The benefits proportionality calculation is derived from the Benefits Proportional by Fund Report (APS 011). Benefits proportionality is based on the amount of financing from general revenue (GR) and general revenue-dedicated (GRD), as recorded in the Uniform State Accounting System (USAS). GR consists of appropriations received from the State. According to the Legislative Budget Board, Legislative Primer, 5th Edition, GRD consists primarily of statutory tuition, premium tuition authorized by the Board, laboratory fees, and course fees.

GRD for all four UHS universities agreed with the amounts recorded in USAS. However, each university had different methods for calculating GRD for reporting purposes. Each UHS university calculates GRD in accordance with the Comptroller's instructions for completing the APS 011; however, the accounting basis is not consistent. UH and UHCL currently use the cash method (deposits to Comptroller based upon cash receipts). UHD and UHV currently use the accrual method (based upon revenue recognition). In addition, we determined that UHV was the only UHS university to include premium tuition in the Texas Public Education Grant (TPEG) calculation portion of the APS 011.

Based on the methodology used by the UHS universities, we identified the following overstatements and understatements of GRD in USAS.

- UH did not include premium tuition in GRD, but rather incorrectly included designated tuition that was used to cover budgeted salaries for FY 2015. This resulted in an overstatement in GRD and benefits paid of approximately $287,800 and $21,200, respectively. Additionally, approximately $880,000 should have been transferred to the State Comptroller as FY 2017 GRD but Student Accounting did not send the cash remittance request to State Accounting. This oversight resulted in an understatement of GRD by $880,000 and an underpayment of benefits of approximately $60,300.

- UHCL inappropriately included administration fees, library fines, room rental revenue and other miscellaneous revenue of approximately $40,000 in FY 2015 GRD. As a result, GRD was overstated and the benefits proportionality calculated on the APS 011 report was incorrect. UHCL corrected the error by deducting this amount from FY 2016 GRD on the APS 011 report. The impact of this error was a benefit overpayment of approximately $2,800 in FY 2015 and a benefit underpayment of approximately $2,900 in FY 2016, resulting in a net underpayment of benefits of approximately $100.

- UHV did not deduct bad debt expense of approximately $82,000 from GRD in FY 2015, resulting in an overpayment of benefits of approximately $7,300. In addition, UHV set aside 15% of statutory and premium tuition for resident students in the TPEG calculation for FY 2015-2017. This resulted in additional TPEG set aside of approximately $142,400, $128,100, and $130,400 in FY 2015, 2016, and 2017, respectively. The amount set aside for TPEG for each of these three years was

approximately 18% of statutory tuition, within the range of 15% to 20% as specified in the Texas Education Code Section 56.033.

Athletics Salary and Benefits

UH and UHV Athletic Departments each had one employee that was partially paid from state funds. A portion of each employee's responsibilities was related to fundraising for Athletics. The General Appropriations Act (GAA), 85th Legislature, Conference Committee Report, Section 9, page III-251 excludes the use of state funds for the operation of intercollegiate athletics. As a result, the salary and the associated benefits were overstated in USAS, and the APS 011 was incorrectly prepared, as follows:

- UH paid 49% of an Associate Athletic Director's salary with state funds. As a result, UH underpaid benefits in FY 2015, 2016, and 2017 of approximately $6,500, $6,800, and $1,100, respectively. UH corrected this practice in October 2016 and began fully funding the salary for the employee using non-state funds.

- UHV paid 40% of the Athletic Director's salary with state funds. As a result, UHV underpaid benefits in FY 2015 and 2016 of approximately $4,700 and $400, respectively. Except for one month, UHV began fully funding the salary for the employee using non-state funds in FY 2016.

RECOMMENDATION (UHS): Management should work with the System university management to standardize and/or modify procedures to help ensure compliance with the State Comptroller's Office Accounting Policy Statements, including properly completing the APS 011 report. In addition, management should work with the State Comptroller's Office to determine the resolution of any instances of non-compliance where there was an overpayment/underpayment of benefits made by the state.

MANAGEMENT'S RESPONSE (UHS): Financial Reporting departments from all campuses will review and update processes and procedures for compliance with the State Comptroller's Office Accounting Policy Statements, including completing the APS 011 report. Processes and procedures will be updated to include standard definitions of includable revenue sources, clearly define acceptable methods of calculation as well as system and procedural requirements for each that include confirmation that all cash transfers have been requested, reconciliation of revenues to cash remitted, and annual review of APS 011 procedures by UHS personnel to ensure that appropriate updates are made to procedures. Financial Reporting departments from all campuses will coordinate efforts with the State Comptroller's Office to ensure that any non-compliance issues resulting from overpayment/underpayment of benefits are resolved in accordance with state accounting standards. These action items will be completed by August 1, 2019.

University of Houston System
Internal Auditing Department

UHS State Benefits Proportionality, FY 2015-2017 - AR2018-27
Action Plan

Est. Compl. Date	Responsibility for Action Name/Title	Action To Be Taken
Risk Level:	**High** **Medium** **Low**	
August 1, 2019	Karin Livingston Controller Finance	Review and update processes and procedures for compliance with the State Comptroller's Office Accounting Policy Statements, including completing the APS 011 report.
August 1, 2019	Karin Livingston Controller Finance	Coordinate efforts with the State Comptroller's Office to ensure that any non-compliance issues resulting from overpayment/underpayment of benefits are resolved in accordance with state accounting standards.

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.