UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON

DIVISION OF RESEARCH
DEPARTMENTAL REVIEWS

REPORT NO. AR2019-05

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

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: October 29, 2018

SUBJ: Internal Audit Report – UH Division of Research, 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 four departmental reviews in the Division of Research. 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 Division was not in compliance with certain policies. Management agreed to implement action plans for certain areas of non-compliance and informed us that it would take the necessary actions in order to help prevent reoccurrences of similar instances of non-compliance with university policies.

This audit report is scheduled to be included in the agenda materials for the November 15, 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
DIVISION OF RESEARCH
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 four departmental reviews in the Division of Research. 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 Division was not in compliance with certain policies. Management agreed to implement action plans for certain areas of non-compliance and informed us that it would take the necessary actions in order to help prevent reoccurrences of similar instances of non-compliance with university policies.

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

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

Don F. Guyton
Chief Audit Executive
October 4, 2018

University of Houston System
Internal Auditing Department

University of Houston
Division of Research
Departmental Reviews

COMPLIANCE MATRIX				
Compliance Area	**Business Operations**	**Animal Care Operations**	**Centers**	**Texas Center for Superconductivity**
Management Oversight	**(2)**	✓	✓	✓
Policies, Procedures, Required Training, And Reporting	✓	✓	✓	✓
Cost Center Management	**(1)**	**(1)**	**(1)**	**(2)**
Payroll	✓	✓	✓	✓
Human Resources	✓	✓	✓	**(1)**
Change Funds And Cash Receipts	✓	**(1)**	✓	**(1)**
Procurement And Travel Cards	**(1)**	✓	✓	✓
Departmental Expenses	✓	✓	✓	✓
Contract Administration	✓	✓	✓	✓
Property Management	✓	✓	✓	✓
Scholarships	**N/A**	**N/A**	**N/A**	**(1)**
Research	✓	**N/A**	**(1)**	**(2)**

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

University of Houston System
Internal Auditing Department

UH Division of Research, Departmental Reviews - AR2019-05
Action Plan

Est. Compl. Date	Responsibility for Action Name/Title	Action To Be Taken
Risk Level: High Medium Low		
December 31, 2018	Cris Milligan Assistant Vice President Research Administration Division of Research	Prepare the Division Business Continuity Plan and submit to Emergency Management.
December 31, 2018	Mohammad G. Saklayen Executive Director, Data, Assessment and IT Division of Research	Update the Division IT Resource Management Plan.
February 1, 2019	Felicia Bentley Department Business Administrator Animal Care Operations	Approve cost center verifications in a timely manner.
February 1, 2019	Michele Hoffman Associate Director, Research Center Administrator Division of Research	Adequately document cost center verification preparation.
December 15, 2018	Michele Hoffman Associate Director, Research Center Administrator Division of Research	Restore deficit budgetary balances to a zero or a positive amount.
April 30, 2019	Elyse Davis Division Administrator Division of Research	Prepare and approve cost center verifications in a timely manner. (TcSUH)
Action Complete	Elyse Davis Division Administrator Division of Research	Submit a request to the appropriate office to deactivate inactive cost center. (TcSUH)

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 Division of Research, Departmental Reviews - AR2019-05
Action Plan

Est. Compl. Date	Responsibility for Action Name/Title	Action To Be Taken
Risk Level:	**High** **Medium** **Low**	
December 31, 2018	Elyse Davis Division Administrator Division of Research	Develop written scholarship guidelines for departmental scholarships. (TcSUH)
December 31, 2018	Elyse Davis Division Administrator Division of Research	Restore deficit budgetary balances to a zero or a positive amount. (TcSUH)
December 31, 2018	Elyse Davis Division Administrator Division of Research	Submit requests to the appropriate office to deactivate expired grant cost centers. (TcSUH)

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

UNIVERSITY OF HOUSTON
DIVISION OF RESEARCH
DEPARTMENTAL REVIEWS
INSTANCES OF NON-COMPLIANCE

We brought the following instances of non-compliance to management's attention in order that it could take appropriate action. We recommended and management agreed to implement 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 university policies.

BUSINESS OPERATIONS

Management Oversight

- The Division Business Continuity Plan was not prepared.*
- The Division IT Resource Management Plan was not updated.*

Cost Center Management

- Delegation of authority to review and approve cost center verifications was not in writing.

Procurement and Travel Cards

- A procurement card expense report was not approved timely.

ANIMAL CARE OPERATIONS

Cost Center Management

- Cost center verifications were not always approved timely.*

Change Funds and Cash Receipts

- The same employee is responsible for preparing deposits and preparing monthly verifications.

CENTERS

Cost Center Management

- Cost center verification preparation was not always adequately documented.*

Research

- Grant cost centers had deficit budgetary balances. *

TEXAS CENTER FOR SUPERCONDUCTIVITY AT THE UNIVERSITY OF HOUSTON

Cost Center Management

- Cost center verifications were not prepared and approved timely.*
- An inactive cost center was not deactivated.*

Human Resources

- An eTermination Checklist was not completed.

Change Funds and Cash Receipts

- A Cash Deposit Journal was not prepared timely.

Scholarships

- The Center did not have written scholarship guidelines.*

Research

- Grant cost centers had deficit budgetary balances.*
- Expired grant cost centers were not deactivated.*

University of Houston System
Internal Auditing Department

University of Houston
Division of Research
Background Information

Background provided by the Division:

The University of Houston is a Carnegie-designated Tier One public research university and is designated as an Innovation and Economic Prosperity University. With more than $170 million in annual research expenditures and located at the center of major research activity across energy, health, aerospace and materials industries, UH is uniquely positioned to be a research hub for industries around the globe.

With strengths in advanced materials, energy, biotechnology, biopharmaceuticals, sustainability and data science, UH is becoming highly competitive in technology commercialization due to the institution's rapidly-growing innovation ecosystem. The institution has fostered a strong entrepreneurial environment that supports new innovation and startup ventures through incubator and accelerator programs and resources. UH is the top-ranked institution in the nation for licensing revenue among public universities without a medical school, exceeding $37 million in fiscal year 2017.

The Division provides strategic leadership to the UH research and innovation enterprise, as well as operational support to the UH research community, including:

- Managing faculty research development
- Managing start-up packages for new faculty hires
- Providing leadership to student research initiatives
- Administering and managing grants
- Overseeing compliance with federal, state and university regulations
- Managing patents, copyrights and trademarks
- Helping to bring UH discoveries to the marketplace
- Managing core facilities funding and maintenance
- Engaging the UH community in the business of research
- Communicating strategic initiatives to key stakeholders, partners, and national research and commercialization communities.

The Division manages seven operational departments and oversees five multidisciplinary centers, comprising of approximately 170 staff and an annual budget of $100 million. In addition, the Division has partnered with the Office of the Provost to establish university-wide institutes supporting UH's new institutional research thrusts to boost annual institutional research expenditures from just under $170 million to more than $300 million over the next decade.

Division of Research Departments

- Animal Care Operations
- Business Operations

- Communications
- Contracts and Grants
- Data, Assessment & Information Technology
- Research Integrity and Oversight
- Technology Transfer and Innovation

University Multidisciplinary Centers
- Center for Advanced Computing & Data Science
- HEALTH Research Institute
- Texas Center for Superconductivity at UH
- Texas Institute for Measurement, Evaluation & Statistics
- Texas Obesity Research Center

University-Wide Institutes
- Data Science Institute
- Hurricane Resilience Research Institute

UH is currently making significant investments in research and infrastructure. The Division of Research has a key role in the continued development of the Technology Bridge, the Multidisciplinary Engineering Research Building, the Health buildings and our animal care facilities.

Budget/Financial Summary:

During fiscal year 2018, with faculty of 19 FTE and staff of 150 FTE, the Division administered 405 cost centers with an overall operating budget of $76,669,673.

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

Beginning Fund Balance (9/1/2016)	$ 60,449,227
Revenues	70,377,454
Expenditures	(66,765,247)
Transfers/Other	(15,696,037)
Ending Balance (8/31/2017)	$ 48,365,397

UNIVERSITY OF HOUSTON
DIVISION OF RESEARCH
SUMMARY OF REVENUES AND EXPENDITURES

Description	FY 2017	FY 2016
Revenue		
Endowment Income Distribution	$ (816,273)	$ (495,944)
Federal Grants and Contracts	(13,897,637)	(21,998,901)
Federal Pass Through Grants - State	(1,887,368)	(3,133,844)
Grants and Contracts	(10,500,182)	(38,001)
Private Gifts, Grants and Contracts	(1,671,171)	(5,172,009)
Sales and Services - Auxiliary	1	0
Sales and Services - Education and General	(33,906,663)	(28,676,476)
State Grants and Contracts	3,138,724	(583,864)
State Pass Through -Other State Agencies	(10,836,885)	(20,001,843)
Total Revenue	$ (70,377,454)	$ (80,100,882)
Cost of Goods Sold		
Cost of Goods Sold	$ (865,057)	$ (804,419)
Total Cost of Goods Sold	$ (865,057)	$ (804,419)
Payroll		
Salaries and Wages	$ 17,132,113	$ 16,818,427
Fringe Benefits	2,256,800	2,022,721
Total Payroll	$ 19,388,913	$ 18,841,148
Maintenance and Operations		
Academic Service	$ 8,130	$ 47,597
Advertising Promotion and Public	50,793	38,874
Communication and Transportation	221,993	214,822
Construction Expenses	0	5,509
Contracting Services	3,128,500	1,293,890
Contracts and Grants	8,190	73,673
Employee Expenses	204,407	181,350
Financial Aid	55,758	48,130
Financial Tax and License Cost	13,723,717	4,667,751
General Services	230,850	178,697
General Supplies	843,547	664,260
Health and Clinical Supplies	0	500
Indirect Cost	1,898,067	2,281,941
Lab Research Supplies	570,988	376,001
Legal Services	2,219,890	2,686,419
Maintenance Expense	192,218	163,396
Misc Supplies and Materials	1,245	599
Other Recurring Expenses	359,161	175,818
Parts and Furnishing	583,599	483,901
Pass Through	2,290,456	2,801,570
Printing, Copying, and Reproduction	49,991	33,014
Professional Services	223,800	141,803
Rental Lease and Royalties	19,602,929	17,365,698
Routine Repair	511,475	325,516
Special Program and Events	29,514	21,484
Travel Expense	463,334	451,958
Utilities and Sanitation	93,170	95,661
Total Maintenance and Operations	$ 47,565,722	$ 34,819,832
Capital Outlay		
Capital Outlay	$ 675,670	$ 2,036,924
Total Capital Outlay	$ 675,670	$ 2,036,924
Total Cost of Goods Sold, Payroll, M&O, and Capital Outlay	$ 66,765,248	$ 54,893,485