UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON

DIVISION OF ADMINISTRATION AND FINANCE
DEPARTMENTAL REVIEWS

REPORT NO. AR2019-24

UNIVERSITY OF HOUSTON SYSTEM
Internal Auditing Department
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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 1, 2019

SUBJ: Internal Audit Report – UH Division of Administration and Finance, 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 10 departmental reviews in the Division of Administration and Finance. 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 an action plan for a certain area 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 August 22, 2019, 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 ADMINISTRATION AND FINANCE
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 10 departmental reviews in the Division of Administration and Finance. 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 an action plan for a certain area 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
May 24, 2019

University of Houston System
Internal Auditing Department

University of Houston
Division of Administration and Finance
Departmental Reviews

Compliance Area	Central Business Office	Budget	Controller	Cullen Performance Hall, Environmental Health and Life Safety and Police	Facilities Planning and Construction
Management Oversight	✓	N/A	N/A	N/A	N/A
Policies, Procedures, Required Training, And Reporting	✓	(1)	✓	✓	✓
Cost Center Management	✓	✓	✓	✓	(1)
Payroll	(1)	✓	✓	(2)	✓
Human Resources	✓	✓	✓	✓	✓
Change Funds And Cash Receipts	✓	N/A	(1)	✓	✓
Procurement And Travel Cards	(1)	✓	✓	✓	✓
Departmental Expenses	✓	✓	✓	✓	✓
Contract Administration	✓	N/A	(2)	✓	✓
Property Management	(1)	✓	(2)	✓	(1)
Scholarships	N/A	N/A	N/A	N/A	N/A
Research	N/A	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
Division of Administration and Finance
Departmental Reviews

Compliance Area	Houston Public Media	Marketing and Communications	Student Financial Services	Treasurer	University Information Technology
Management Oversight	N/A	N/A	N/A	N/A	N/A
Policies, Procedures, Required Training, And Reporting	✓	✓	✓	(1)	✓
Cost Center Management	(1)	✓	✓	✓	(1)
Payroll	✓	✓	✓	✓	✓
Human Resources	✓	✓	✓	✓	✓
Change Funds And Cash Receipts	✓	✓	✓	✓	✓
Procurement And Travel Cards	✓	✓	✓	✓	✓
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	N/A

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

University of Houston System
Internal Auditing Department

UH Division of Administration and Finance, Departmental Reviews - AR2019-24
Action Plan

Est. Compl. Date	Responsibility for Action Name/Title	Action To Be Taken
Risk Level: High Medium Low		
October 31, 2019	Lisa Curran Assistant Director of Division Business Operations Facilities Planning and Construction	Prepare, approve, and adequately document cost center verifications in a timely manner.

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 ADMINISTRATION AND FINANCE
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 an action plan to address the area 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.

CENTRAL BUSINESS OFFICE

Payroll

- Absence requests for non-exempt employees were not always submitted timely.

Procurement and Travel Cards

- A Procurement card expense report was not approved timely.

Property Management

- An annual inventory was not completed timely.

BUDGET

Policies, Procedures, Required Training, and Reporting

- Role-based training was not completed by all applicable employees.

CONTROLLER

Change Funds and Cash Receipts

- A Cash Deposit Journal was not prepared timely.

Contract Administration

- A contract coversheet was not signed prior to the effective date.
- A contract was not signed prior to the effective date.

Property Management

- Annual inventories were not completed timely.

- Request for Authority to Remove Equipment from Campus forms were not renewed timely.

CULLEN PERFORMANCE HALL, ENVIRONMENTAL HEALTH AND LIFE SAFETY AND POLICE

Payroll

- Absence requests for non-exempt employees were not always submitted timely.
- Employees were not clocking in and out to record time worked.

FACILITIES PLANNING AND CONSTRUCTION

Cost Center Management

- Cost center verifications were not always prepared and approved timely.*

Property Management

- An annual inventory was not completed timely.

HOUSTON PUBLIC MEDIA

Cost Center Management

- Cost center verifications were not always approved timely.

Departmental Expenses

- A Travel Request was not approved timely.

TREASURER

Policies, Procedures, Required Training, and Reporting

- Role-based training was not completed by all applicable employees.

UNIVERSITY INFORMATION TECHNOLOGY

Cost Center Management

- Cost center verifications were not always approved timely.

University of Houston System
Internal Auditing Department

University of Houston
Division of Administration and Finance
Background Information

Background provided by the Division:

The Division of Administration and Finance at the University of Houston and University of Houston System is comprised of more than 1,100 employees within 8 business units reporting to the Senior Vice President for Administration and Finance.

As an integral foundation for services, the mission of the Division of Administration and Finance is to provide a platform for nationally competitive and internationally recognized opportunities of learning, discovery and engagement for a diverse student population in a real-world setting by leading, supporting and enabling institutional effectiveness for the University of Houston and the University of Houston System.

The Division of Administration and Finance core values are defined by high-performance teamwork, continuous improvement and sustainability. Integrity, accountability and the S.P.I.R.I.T. of service excellence guide the daily operations and develop the framework for all that Division does. The Division of Administration and Finance represents their strategic goals through a commitment to:

1) **S**ervice Excellence.
2) **P**rogressive Culture of Sustainability.
3) **I**nnovation and Technology.
4) **R**etention and Engagement Practices that Support Employee Development.
5) **I**mpactful and Data-Driven Goals.
6) **T**ransparency, Diversity, and Inclusion in Departments and Programs.

With a commitment to service excellence in safety, rigorous fiscal management and business integrity, the Division of Administration and Finance has responsibility for financial and budgetary management, revenues, expenditures and critical infrastructure services encompassing Finance, Human Resources, Campus and Public Safety, Facilities Management and Construction, Information Technology, Houston Public Media, Public Art of the University of Houston System, Real Estate Services, Auxiliary Services, University Services and Equal Opportunity Services, along with their respective systems and programs—ultimately reporting to the President, the University of Houston System Board of Regents, state and federal government entities, other public and private sponsors, University constituents (faculty, staff and students) and the general public.

Mission

The Division of Administration and Finance leads, supports and enables institutional effectiveness by providing strategic and responsive administrative, financial, information and physical infrastructure services for the University of Houston.

Vision

The Division of Administration and Finance seeks to elevate the University to the highest level of service excellence by providing innovative and comprehensive services to our University community.

Core Values

All employees of the University of Houston Division of Administration and Finance should demonstrate a commitment to:

- Support the University's mission to offer nationally competitive and internationally recognized opportunity for learning, discovery and engagement to a diverse population of students in a real-world setting.
- Provide excellent customer service through teamwork, professionalism, enthusiasm, pride and service.
- Spearhead a culture of safety and security for all members of the University family.
- Represent Administration and Finance in a positive light by treating students, faculty and fellow staff members with dignity and respect.
- Continuously improve processes and services in an efficient and effective manner.
- Commit to developing employee talent and an engaged workforce.
- Pledge to socially, environmentally and fiscally sustainable practices.
- Support a community that fosters a spirit of caring and compassion.
- Conduct duties with a commitment to service, integrity, accountability and dignity.

Budget/Financial Summary:

During fiscal year 2019, with a staff of 1,357 FTE, the Division administered 1,369 cost centers with an overall operating budget of $174,840,118.

The following table presents the fund balance reconciliation for the Division for FY 2018:

Beginning Fund Balance (9/1/2017)	$ 56,202,215
Revenues	57,072,038
Expenditures	(270,226,159)
Transfers/Other	189,113,897
Ending Balance (8/31/2018)	$ 32,161,991

UNIVERSITY OF HOUSTON
DIVISION OF ADMINISTRATION AND FINANCE
SUMMARY OF REVENUES AND EXPENDITURES

Description	FY 2018	FY 2017
Revenue		
Endowment Income Distribution	$ (43,248)	$ (40,775)
Federal Grants and Contracts	(72,568)	(71,256)
Other Fees	(2,299,393)	(2,368,775)
Other Investment Income	(3,931)	0
Other Revenue Sources	(989,533)	(138,716)
Private Gifts, Grants and Contracts	(20,857,464)	(17,685,708)
Sales and Services - Auxiliary	(32,291,269)	(30,248,888)
Sales and Services - Education and General	(514,632)	(351,927)
Total Revenue	$ (57,072,038)	$ (50,906,045)
Cost of Goods Sold		
Cost of Goods Sold	$ (34,969,650)	$ (31,952,319)
Total Cost of Goods Sold	$ (34,969,650)	$ (31,952,319)
Payroll		
Salaries and Wages	$ 66,038,998	$ 67,205,618
Fringe Benefits	15,929,105	15,186,803
Total Payroll	$ 81,968,103	$ 82,392,421
Maintenance and Operations		
Academic Service	$ 45,241	$ 31,282
Advertising Promotion and Public	766,996	870,183
Communication and Transportation	3,057,236	1,223,022
Construction Expenses	33,680,397	13,436,148
Contracting of Services	16,074,310	15,829,734
Employee Expenses	292,777	426,207
Facilities and Ground Supplies	266,556	238,975
Financial Aid	4,809	54,668
Financial Tax and License Cost	13,007,602	13,069,625
General Services	6,250,515	5,288,538
General Supplies	1,018,481	904,631
Health and Clinical Supplies	7,060	4,344
Lab Research Supplies	15,615	927
Legal Services	50,104	80,209
Maintenance Expense	5,173,947	3,181,136
Miscellaneous Supplies and Materials	3,358,871	4,006,183
Other Recurring Expenses	1,847,887	1,984,795
Parts and Furnishing	6,802,029	4,709,707
Printing, Copying, and Reproduction	295,252	184,310
Professional Services	2,406,433	2,531,101
Rental Lease and Royalties	7,543,405	6,893,265
Routine Repair	7,460,623	7,144,769
Special Program and Events	110,472	58,646
Travel Expense	269,319	260,370
Utilities and Sanitation	1,771,936	1,546,714
Total Maintenance and Operations	$ 111,577,873	$ 83,959,489
Capital Outlay		
Capital Outlay	$ 111,649,833	$ 119,121,583
Total Capital Outlay	$ 111,649,833	$ 119,121,583
Total Cost of Goods Sold, Payroll, M&O, and Capital Outlay	$ 270,226,159	$ 253,521,174