UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON

LAW CENTER
DEPARTMENTAL REVIEWS

REPORT NO. AR2019-26

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 1, 2019

SUBJ: Internal Audit Report – UH Law Center, 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 two departmental reviews in the Law Center. 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 Law Center 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 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 LAW CENTER 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 two departmental reviews in the Law Center. 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 Law Center 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
June 21, 2019

University of Houston System
Internal Auditing Department

University of Houston
Law Center
Departmental Reviews

COMPLIANCE MATRIX		
Compliance Area	**Law Center Dean's Office**	**John M. O'Quinn Law Library**
Management Oversight	✓	✓
Policies, Procedures, Required Training, And Reporting	**(1)**	✓
Cost Center Management	**(1)**	**(1)**
Payroll	✓	✓
Human Resources	✓	✓
Change Funds And Cash Receipts	**(2)**	**(1)**
Procurement And Travel Cards	**(1)**	**(1)**
Departmental Expenses	✓	✓
Contract Administration	✓	✓
Property Management	**(1)**	✓
Scholarships	✓	**N/A**
Research	✓	**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

UNIVERSITY OF HOUSTON LAW CENTER 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

Policies, Procedures and Required Training

- Mandatory training was not completed by all applicable employees.

Cost Center Management

- Cost center verifications were not always approved timely.

Change Funds and Cash Receipts

- The same employee is responsible for approving deposits and monthly verifications.
- Annual PCI Data Security Standard certifications were not always completed timely.

Procurement and Travel Cards

- Cardholders did not always comply with university P-Card and T-Card guidelines.

Property Management

- A Designation of Property Custodian form was not completed timely.

JOHN M. O'QUINN LAW LIBRARY

Cost Center Management

- Cost center verifications were not always approved timely.

Change Funds and Cash Receipts

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

Procurement and Travel Cards

- Cardholders did not always comply with university P-Card and T-Card guidelines.

University of Houston System
Internal Auditing Department

University of Houston
Law Center
Background Information

Background provided by the Law Center:

The UH Law Center's financial operation is organized in a centralized nature through the Business Services department (Business Office). The Law Library is the only decentralized department. There are several programs and institutes within the Law Center, including the Health Law and Policy Institute, the Intellectual Property & Information Law program, Environment, Energy, and Natural Resources Center, Pipeline Program, the Higher Education Law and Governance Institute, the Blakely Institute, the Consumer Law Program, and the Legal Aid Clinic. The primary financial and administrative operations within the college are in the Dean's Office, Student Affairs, Career Development, Information Technology, the Alumni Relations Office, and Business Services.

The Executive Director of Business Operations has dual reporting lines to the Dean and the Associate Provost for Academic Affairs, Finance and Administration. The College Business Administrator reports to the Executive Director of Business Operations and is responsible for financial processes and compliance with the Baseline Standards. The Library Director is responsible for administration of finance and human resource matters of the Library operation.

Since the last audit, Business Services continuous improvement to its financial structures, chart of accounts, and program codes have yielded strong positive results in financial controls for the Directors and the Deans. The customized financial reports have proven to be an effective business management tool in reference to substantive policy and management decision and for structuring the direction of the Law Center goals and initiatives.

The current reporting system provides management with a full picture of the Law Center's activities by budget line item, fund, fund name, program, and purpose. These features allow for standardized reporting in formats needed for external agencies such as annual American Bar Association reporting and executive reports where various groupings of accounts are more relevant. It also allows management to review cash flow and budget allocations for the Law Center as a whole and it significantly streamlines the process for obtaining and/or analyzing such information. Monthly budget and expenditures summary reports, as well as historical financial and human resource reports, are available on-line to each department as well as the Dean, Associate Dean's and Directors. At the beginning of each year faculty and staff are sent a procurement guideline for the use of each of the various funds (state, local, foundation) available to them. These items are also posted on the UH Law Center SharePoint site for all employees.

Budget/Financial Summary:

During the fiscal year 2019, with a faculty of 58 FTE's and a total staff of 112 FTE's, the Law Center administered 178 cost centers with an overall operating budget of $30,430,263.

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

Beginning Fund Balance (9/1/2017)	$ 7,754,445
Revenues	3,777,854
Expenditures	(29,889,569)
Transfers/Other	24,314,701
Ending Balance (8/31/2018)	$ 5,957,431

UNIVERSITY OF HOUSTON
LAW CENTER
SUMMARY OF REVENUES AND EXPENDITURES

Description	FY 2018	FY 2017
Revenue		
Endowment Income Distribution	$ (68,530)	$ (69,042)
Federal Grants and Contracts	(11,750)	(40,353)
Other Fees	(70,686)	(85,338)
Other Revenue Sources	0	(517)
Private Gifts, Grants and Contracts	(3,402,127)	(3,739,068)
Sales and Service - Educational and General	(56,569)	(71,982)
State Grants and Contracts	(168,192)	(215,007)
State Pass Through - Other State Agencies	0	(21,951)
Total Revenue	$ (3,777,854)	$ (4,243,258)
Cost of Goods Sold		
Cost of Goods Sold	$ (7,236)	$ 0
Total Cost of Goods Sold	$ (7,236)	$ 0
Payroll		
Salaries and Wages	$ 17,563,695	$ 17,288,627
Fringe Benefits	2,008,762	1,940,582
Total Payroll	$ 19,572,457	$ 19,229,209
Maintenance and Operations		
Academic Service	$ 7,944	$ 20,923
Advertising Promotion and Public	810,938	801,077
Communication and Transportation	623,595	580,035
Construction Expenses	0	1
Contracting Services	260,925	279,030
Employee Expenses	113,541	84,022
Financial Aid	4,576,287	3,915,987
Financial Tax and License Cost	3,339	2,162
General Services	265,060	319,396
General Supplies	159,591	146,124
Health & Clinical Supplies	956	749
Indirect Cost	34,739	55,793
Legal Services	2,538	310
Miscellaneous Supplies and Materials	6,594	6,653
Other Recurring Expenses	916,965	1,315,711
Parts and Furnishing	220,980	308,905
Printing, Copying, and Reproduction	280,804	261,042
Professional Services	160,203	91,604
Rental Lease and Royalties	164,118	165,318
Routine Repair	57,728	57,729
Special Program and Events	179,575	182,877
Travel Expenses	638,080	655,807
Total Maintenance and Operations	$ 9,484,500	$ 9,251,255
Capital Outlay		
Capital Outlay	$ 839,848	$ 1,113,558
Total Capital Outlay	$ 839,848	$ 1,113,558
Total Cost of Goods Sold, Payroll, M&O, and Capital Outlay	$ 29,889,569	$ 29,594,022