

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM  
STATE BENEFITS PROPORTIONALITY

FY 2018-2019

REPORT NO. AR2020-18



UNIVERSITY OF HOUSTON SYSTEM  
Internal Auditing Department  
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## MEMORANDUM

**TO:** Mr. Jack B. Moore  
Chair, Audit and Compliance Committee

Dr. Renu Khator  
Chancellor/President, UHS/UH

**FROM:** Phillip W. Hurd  
Chief Audit and Compliance Executive

**DATE:** August 7, 2020

**SUBJ:** Internal Audit Report – UHS State Benefits Proportionality, Fiscal Years 2018-2019

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 2018 - 2019 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, 86<sup>th</sup> Legislature, Article IX, Section 6.08, Benefits Paid Proportional by Fund when completing the APS 011 reports. We noted an instance of non-compliance related to financing sources. Management is in the process of addressing this instance of non-compliance.

This audit report is scheduled to be included in the agenda materials for the August 20, 2020 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) 86<sup>th</sup> Legislature, Conference Committee Report, rider 8, page III-48, directed higher education institutions to conduct an internal audit of benefits proportional by fund for fiscal years 2017, 2018 and 2019 (fiscal year 2017 was included in the prior audit) 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 20<sup>th</sup> 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 fiscal years 2018 and 2019, including compliance with requirements identified in Section 6.08, page IX-28 of the GAA (86<sup>th</sup> Legislature) and the accuracy of the reports.

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, 86<sup>th</sup> Legislature, Article IX, Section 6.08, Benefits Paid Proportional by Fund when completing the APS 011 reports. We noted an instance of non-compliance related to financing sources. Management is in the process of addressing this instance of non-compliance.

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



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Phillip W. Hurd

Chief Audit and Compliance Executive

July 23, 2020

## 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, 5<sup>th</sup> Edition, GRD consists primarily of statutory tuition, premium tuition authorized by the Board, interest from state treasurer accounts, laboratory fees, and course fees.

GRD for all four UHS universities agreed with the amounts recorded in USAS. However, universities 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 UHD currently use the cash method (deposits to Comptroller based upon cash receipts). UHCL and UHV currently use the accrual method (based upon revenue recognition).

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

- UH reported GRD to be the total tuition revenue payments made to the state during fiscal year 2019, which was less than net tuition revenue recognized in the PeopleSoft Finance System. This resulted in an understatement in GRD and benefits paid of approximately \$1,100,000 and \$39,600, respectively.

**RECOMMENDATION (UHS):** Management should review processes to help ensure that established procedures are followed, including properly completing the APS 011 report. In addition, management should work with the State Comptroller's Office to determine the resolution of this instance of non-compliance where there was an overpayment of benefits made by the state.

**MANAGEMENT'S RESPONSE (UHS):** UH will work with the State Comptroller's Office to resolve any underpayment of benefits and review its cash estimation processes to help ensure that cash estimates are adequate representations of tuition revenues. We will resolve any underpayments and update our cash estimation processes by December 31, 2020.

**University of Houston System  
Internal Auditing Department**

**UHS State Benefits Proportionality, FY 2018-2019 - AR2020-18  
Action Plan**

<b>Est. Compl. Date</b>	<b>Responsibility for Action Name/Title</b>	<b>Action To Be Taken</b>
<b>Risk Level:    High    Medium    Low</b>		
December 31, 2020	Karin Livingston Assistant VP for Finance and Controller	Review and update cash estimation processes to help ensure compliance with the State Comptroller's Office Accounting Policy Statements, including completing the APS 011 report.
December 31, 2020	Karin Livingston Assistant VP for Finance and Controller	Work with the State Comptroller's Office to ensure that any non-compliance issues resulting from an 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.**