



## A Legislative Summary Document Regarding **University of Houston**

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### **State Auditor's Observations**

The University of Houston's (University) methods for estimating expenditures and revenues appear to be reasonable and should result in an accurate Legislative Appropriations Request (LAR).

The University has two weaknesses in contract administration that subject state and University funds to the risk of loss and abuse. The University needs to more consistently follow its existing contract procurement policies and procedures, and it needs to improve the contract monitoring training and the detailed guidance it provides to departments.

Prepared for the 78th Legislature  
by the State Auditor's Office

January 2003

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*This is not an audit report and, with the exception of any audit report summaries, the material in this document has not been subjected to all of the tests and confirmations performed in an audit.*

# University of Houston

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## Financial Profile

### Revenue Projections

The University of Houston (University) uses historical performance and other information (based on enrollment and workload) to estimate revenues for its Legislative Appropriations Request (LAR). This method appears to be reasonable and consistent. The University used the same method to estimate revenues for its previous (2002–2003) LAR.

As with other state universities, a large portion of the University's revenues come from General Revenue Fund formula funding that is not included in the LAR. Also, the Educational and General Fund has dedicated funding that is a local match to funding from the General Revenue Fund. The local match is generally proportionate to General Revenue because it is also based on enrollment. The largest component of this category is tuition.

### Expenditure Analysis

The University's method for projecting its budgeted expenditures appears to be reasonable and consistent. It is primarily based on historical performance and enrollment estimates. Estimated expenditures are also considered a function of estimated revenues from the General Revenue Fund.

The table below shows the University's expenditures by Comptroller of Public Accounts category as reported by the University in the Uniform Statewide Accounting System (USAS) for appropriation years 2000, 2001, and 2002. This data has not been audited. It is provided for informational purposes to show how the University has spent its funds. We obtained explanations from the University for fluctuations across years that appeared unusual.

However, the financial information recorded in USAS and presented here includes only expenditures paid from the State's General Revenue Fund. These expenditures do not include expenditures paid from funds held locally by the University. As a result, variances from year-to-year may reflect internal funding decisions and therefore may not be comparable.

Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Salaries and Wages	\$ 139,751,163	\$ 145,905,841	\$ 162,642,713
Employee Benefits	18,826,723	19,082,526	20,680,575
Communications and Utilities	9,460,081	10,009,913	2,326,049
Other Expenditures	8,735,706	9,415,637	15,244,229
Capital Outlay	6,082,910	8,587,157	7,526,293
Repairs and Maintenance	4,463,194	24,519,506	14,493,480
Supplies and Materials	3,547,157	3,503,449	4,177,684
Payment on Principal - Debt Service	2,819,790	3,133,637	2,129,752
Professional Services and Fees	1,918,523	2,733,670	1,421,009
Interest/Prompt Payment Penalties	1,443,747	1,293,924	605,516
Interfund Transfers/Other	1,019,024	919,774	2,302,039
Public Assistance Payments (Note A)	507,535	1,758,520	5,597,638
Travel	398,243	354,387	356,305

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Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Rentals and Leases	347,940	300,772	473,156
Printing and Reproduction	281,300	275,898	272,482
<b>Total Expenditures</b>	<b>\$ 199,603,036</b>	<b>\$ 231,794,611</b>	<b>\$ 240,248,920</b>

Source: USAS - All funds including appropriated, unappropriated, and non-appropriated as of November 30, 2002.

Note A – The Public Assistance Payments primarily represent Grants to Vocational Students.

## Key Findings from Previous Audits and Reviews

January 1, 2001–December 31, 2002

### *A Letter to Management Concerning a Contract Administration Review at the University of Houston*

(Report No. 02-326, February 2002)

The University of Houston (University) has two weaknesses in contract administration that subject state and University funds to the risk of loss and abuse. The University needs to more consistently follow its existing contract procurement policies and procedures. In the area of contract oversight, it needs to improve the contract monitoring training and the detailed guidance it provides to departments. We found no significant problems with the University’s contractor payment/reimbursement methodology and contract establishment process.

Status of Audit Recommendations as of November 30, 2002 (unaudited)	
The University has reported the following:	
Implemented	2
<b>Total recommendations</b>	<b>2</b>

Not consistently following contract procurement policies and procedures increases the risk that the University may not receive the best value for its contracts. For example, unqualified contractors may be hired, higher than reasonable prices may be paid for goods and services, or contract provisions may not adequately protect the financial interests of the University and the State. The University did not follow some of its prescribed authorization procedures for 19 percent of the contracts in our judgmental sample. These contracts represented \$528,446 (8 percent) of the \$6,321,515 in total contract dollars tested.

Not providing training or detailed guidance on contract monitoring increases the risk that departments will not hold contractors accountable for performance and contract financial requirements.

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## **State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2001<sup>1</sup>**

(February 2002)

### **Special Tests and Provisions - Verification**

The University of Houston's (University) Student Financial Aid Office was unable to provide complete supporting documentation for four students (of a sample of 30 students) selected for verification test work. Additionally, two of the household verifications (of the sample of 30 students) did not agree with the supporting documents, which resulted in a Pell Grant under-award of \$306 and a Federal Stafford Subsidized Loan over-award of \$282. Some records at the University were destroyed as a result of the flooding that occurred in Houston in June 2001. The Student Financial Aid Office was unable to determine whether the missing documents were misplaced or whether they were destroyed as a result of the flood.

### **Status of Audit Recommendations as of November 30, 2002**

KPMG LLP will report on the status of these recommendations in the federal portion of the statewide single audit for fiscal year 2002. This report is expected to be released in Spring 2003.

### **Special Tests and Provisions - Return of Title IV Funds**

Ten students (of a sample of 30 students) withdrew prior to the completion of 60 percent of the enrollment period. Calculations to determine the amount of Title IV assistance earned had not been calculated for four of these ten students; the calculation had not been performed within the 30 days of withdrawal for the remaining six students. According to the University, the Student Financial Aid Office was understaffed in fiscal year 2001 and, therefore, lacked the personnel to enter the students' withdrawal dates in the Student Financial Aid system in a timely manner. The questioned cost was \$11,222.02.

## **Performance Management**

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### **Performance Indicators Used by Management**

The University of Houston (University) uses the Legislative Budget Board's (LBB) performance measures as well as 11 internal "Performance Indicators" adopted by the Board of Regents to determine whether it has achieved its mission, goals, and objectives. The University met 22 of 25 LBB outcome performance targets in 2001. The University uses the non-LBB measures to benchmark itself against 15 peer institutions in large urban areas as part of determining its success.

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### **Estimating Performance Targets**

It appears that the University makes reasonable estimates regarding performance measures. In addition to these performance measures, some University departments track their own measures such as starting salaries for graduates and scores on national tests.

## **Disaster Preparedness**

We gathered information from the University of Houston (University) on plans in place to provide continued operations and services in the event of a disaster. Standard audit criteria for disaster preparedness have not been established; therefore, we are not evaluating the University's plans. Our objective was only to provide the information reported by the University.

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<sup>1</sup> Results from only the most recent statewide single audit are included in this Legislative Summary Document. KPMG LLP conducted the federal portion of that audit under contract with the State Auditor's Office. Only excerpts from the KPMG audit report are presented above. For the full text of the KPMG audit report, please see [www.sao.state.tx.us/Reports/report.cfm?report=2002/02-345](http://www.sao.state.tx.us/Reports/report.cfm?report=2002/02-345).

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The University has an emergency management plan in draft form with a scheduled implementation date of January 2003. An emergency management plan (EMP) differs from a business continuity plan in that an EMP focuses on the immediate aftermath of an event, whereas a business continuity plan focuses on the recovery of business operations. The University's EMP focuses mainly on actions that should be taken prior to and during a disaster.

The University's information technology disaster recovery plan was implemented in February 2000. The University was in the process of revising it, with completion expected during April 2003.