
AGENDA

UNIVERSITY OF HOUSTON SYSTEM AUDIT AND COMPLIANCE COMMITTEE MEETING

DATE: Thursday, May 20, 2021
TIME: 10:30 AM
PLACE: Hilton University of Houston Hotel
Conrad Hilton Ballroom, Second Floor
4450 University Drive
Houston, Texas 77204
Link to live broadcast: <https://uh.edu/bor-live>

Chair: Beth Madison
Vice Chair: Jack B. Moore
Members: Durga D. Agrawal
Alonzo Cantu
John A. McCall, Jr.
Alvaro De La Cruz
Tilman J. Fertitta, Ex Officio

- I. **Audit and Compliance Committee**
Presenter: Chair Jack Moore
- A. Call to Order
Presenter: Chair Jack Moore
- B. Approval of Committee Minutes
-February 25, 2021, Audit and Compliance Committee meeting
Action: Approval
Presenter: Chair Jack Moore
- C. Report on University of Houston System, Institutional Compliance Fraud and Non-Compliance Hotline Reports for the three months ended April 30, 2021 - University of Houston System 4
Action: Information
Presenter: Susan Koch, System-wide Compliance Officer
- D. Report on External Audit Report - University of Houston System, External Audit Report: Houston Public Media (A Division of the 11

University of Houston System), Independent Auditor's Report and Financial Statements, Years Ended August 31, 2020 and August 31, 2019 - University of Houston System

Action: Information

Presenter: Phil Hurd, Chief Audit Executive

- E. Report on External Audit Reports - University of Houston System, State Auditor Reports - University of Houston System 82
- State of Texas Federal Portion of the Statewide Single Audit Report
for the Year Ended August 31, 2020, Report No. 21-015 (excerpts)
 - State of Texas Financial Portion of the Statewide Single Audit Report
for the Year Ended August 31, 2020, Report No. 21-555 (excerpts)

Action: Information

Presenter: Phil Hurd, Chief Audit Executive

- F. Report on University of Houston System, UH System Support Organizations, FY2020 - University of Houston System. 195
- Compliance Review of UH System Support Organizations
 - UH System Support Organizations Report

Action: Information

Presenter: Phil Hurd, Chief Audit Executive

- G. Report on University of Houston System, Internal Audit Reports - University of Houston System. 199

Action: Information

Presenter: Phil Hurd, Chief Audit Executive

II. **Executive Session**

Presenter: Chair Jack Moore

- A. 1. Consultation with System Attorney Regarding Legal Matters, and/or Contemplated Litigation or Settlement Offers.
Texas Gov't Code Section 551.071
2. Deliberations regarding the Purchase, Exchange, Sale or Value of Real Property.
Texas Gov't Code Section 551.072
3. Deliberation Regarding a Prospective Gift.
Texas Gov't Code Section 551.073
4. Personnel Matters Relating to appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees including but not limited to the Chancellor, Presidents, Vice Chancellors, in the Division of

Athletics and members of the Board of Regents.

Texas Gov't Code Section 551.074

5. Confidentiality of government information related to security or infrastructure issues for computers

Texas Gov't Code Section 552.139

III. **Report and Action from Executive Session**

Presenter: Chair Jack Moore

IV. **Adjourn**

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Audit and Compliance

ITEM: Report on University of Houston System, Institutional Compliance Fraud and Non-Compliance Hotline Reports for the three months ended April 30, 2021

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Institutional Compliance Hotline Report summarizes the fraud and non-compliance hotline reports received for each institution during the applicable quarter, including the primary issue associated with the reports.

SUPPORTING DOCUMENTATION: Institutional Compliance Hotline Report

FISCAL NOTE:

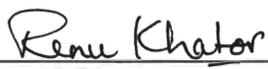
**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



SYSTEM-WIDE COMPLIANCE OFFICER Susan Koch

4-30-2021
DATE

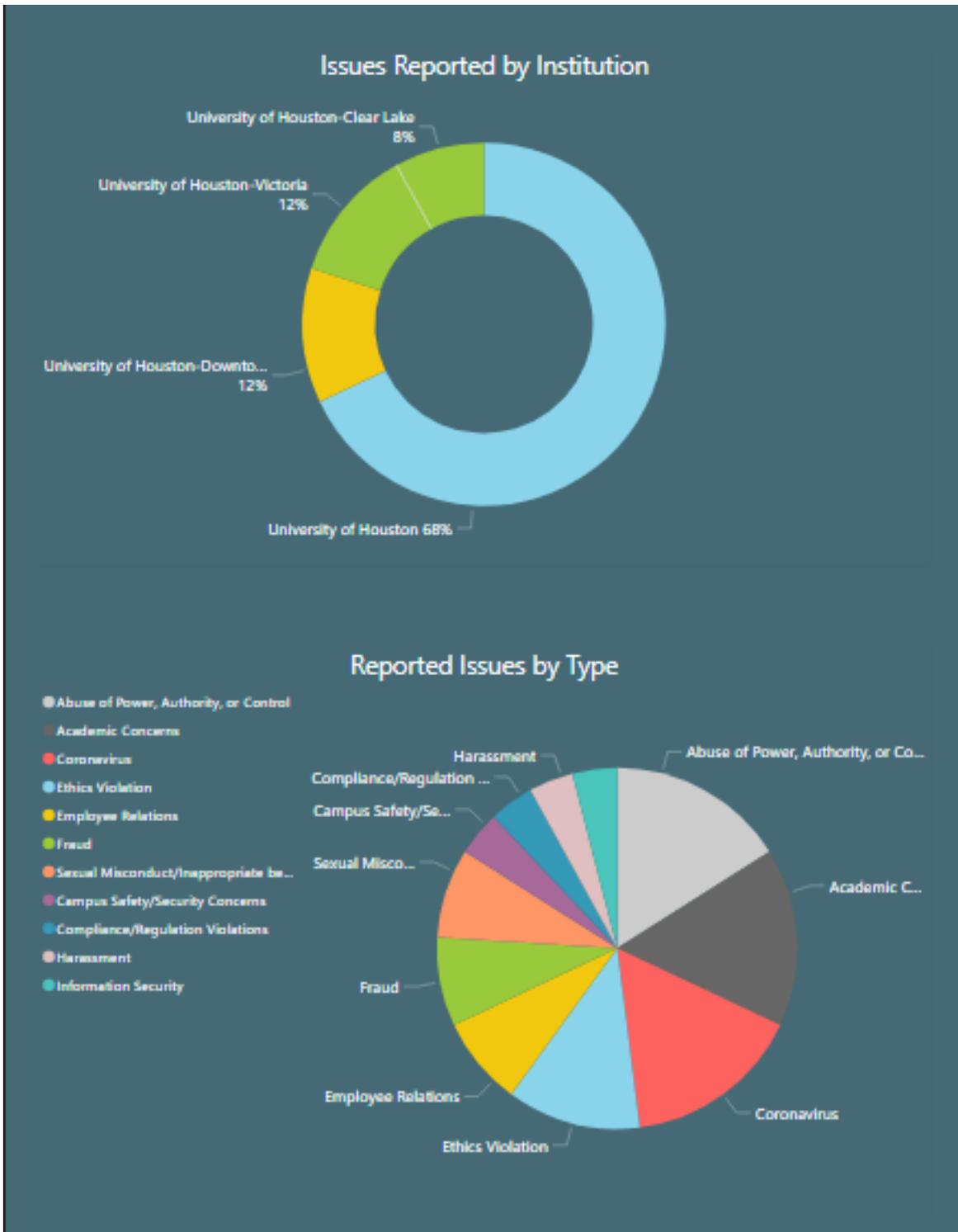


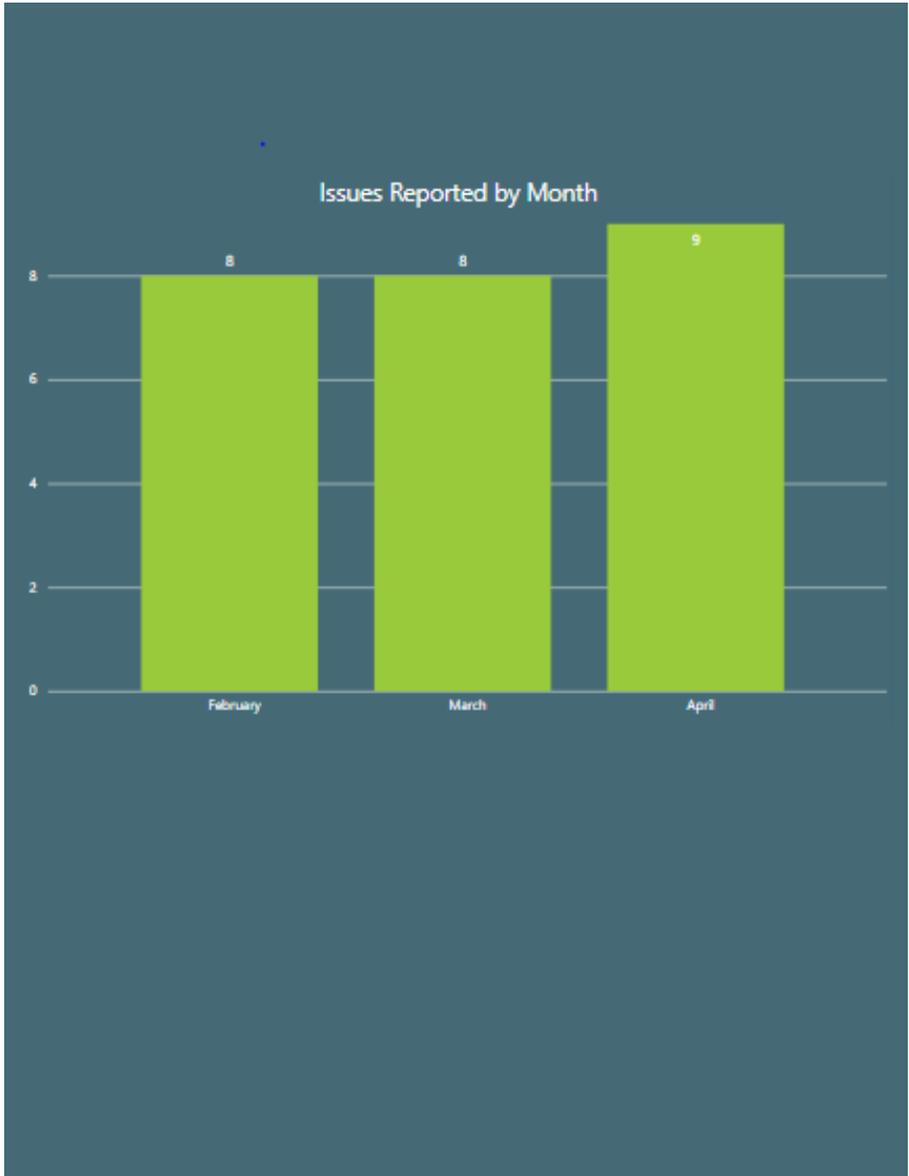
CHANCELLOR Renu Khator

5/17/2021
DATE

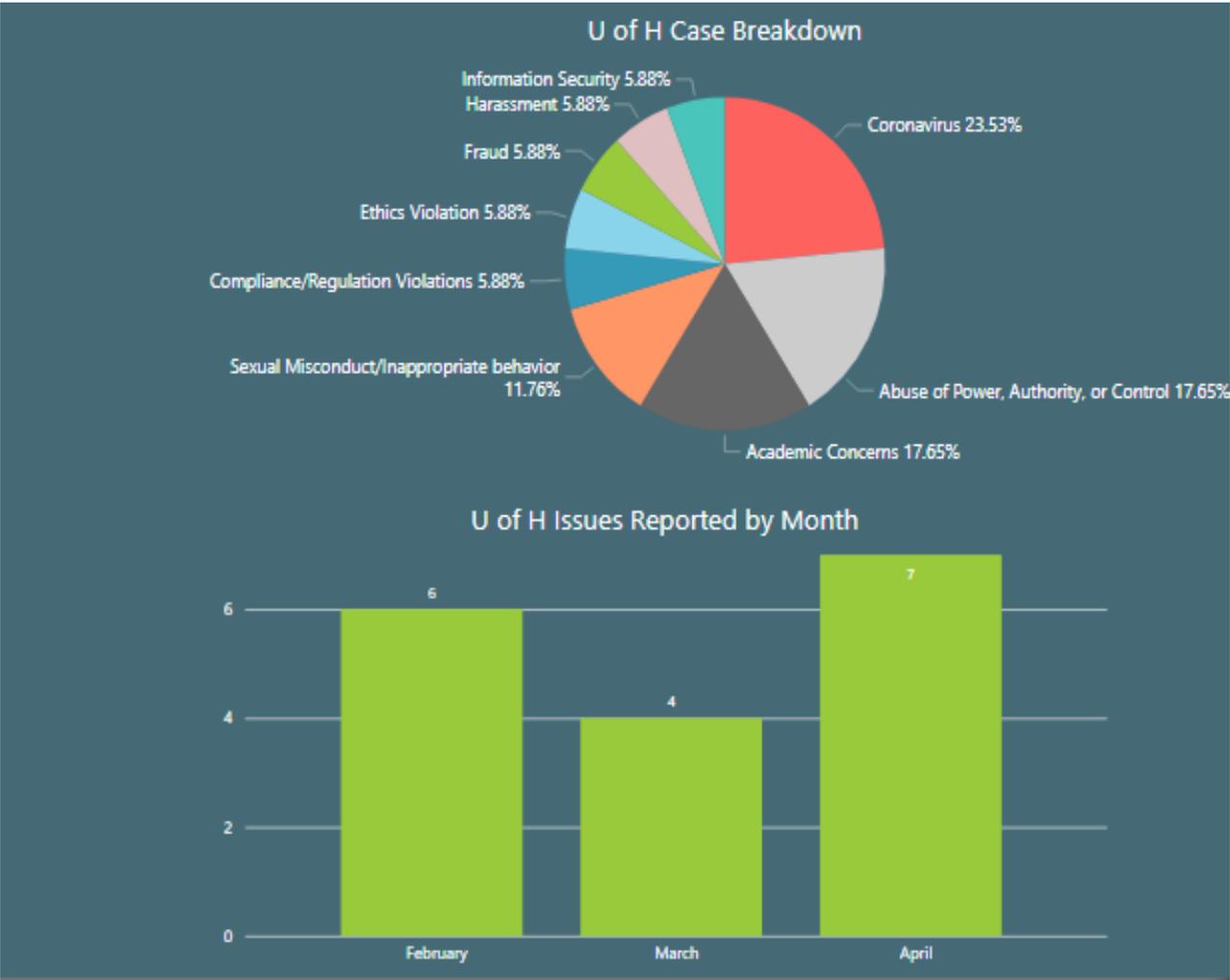
**UNIVERSITY OF HOUSTON SYSTEM
INSTITUTIONAL COMPLIANCE HOTLINE REPORT
For the three months ended April 30, 2021**

Hotline reports for all Universities

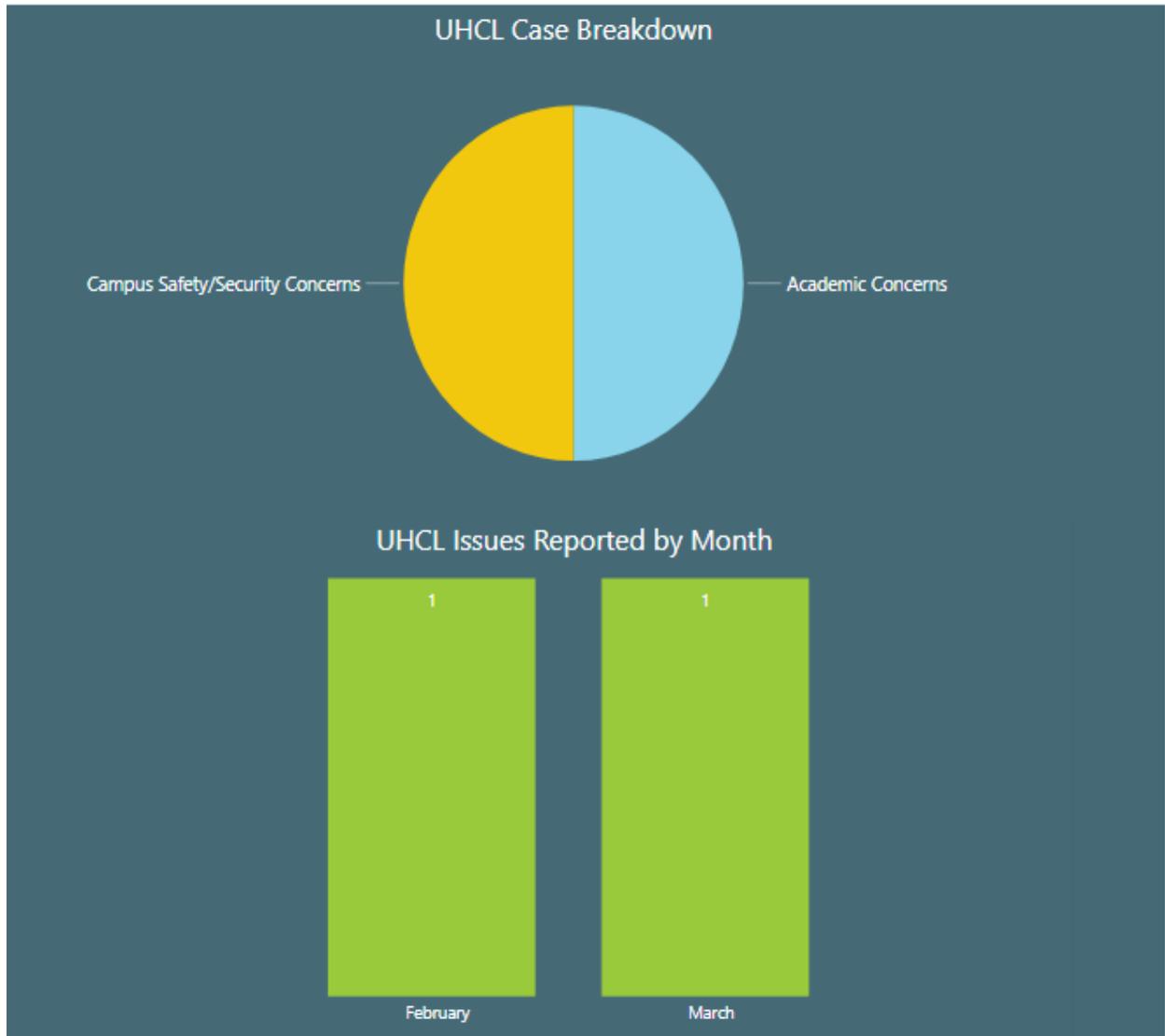




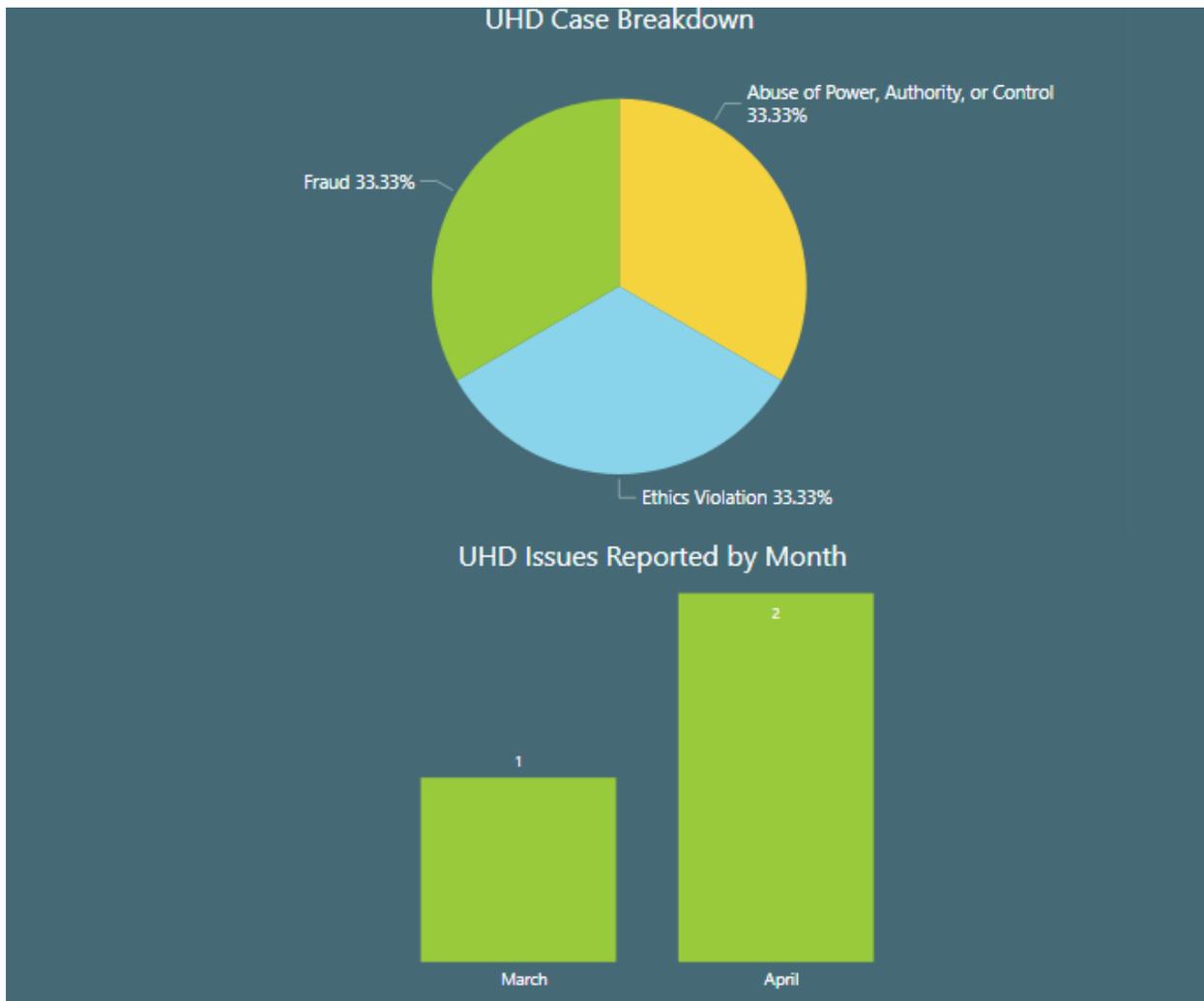
Hotline reports for University of Houston



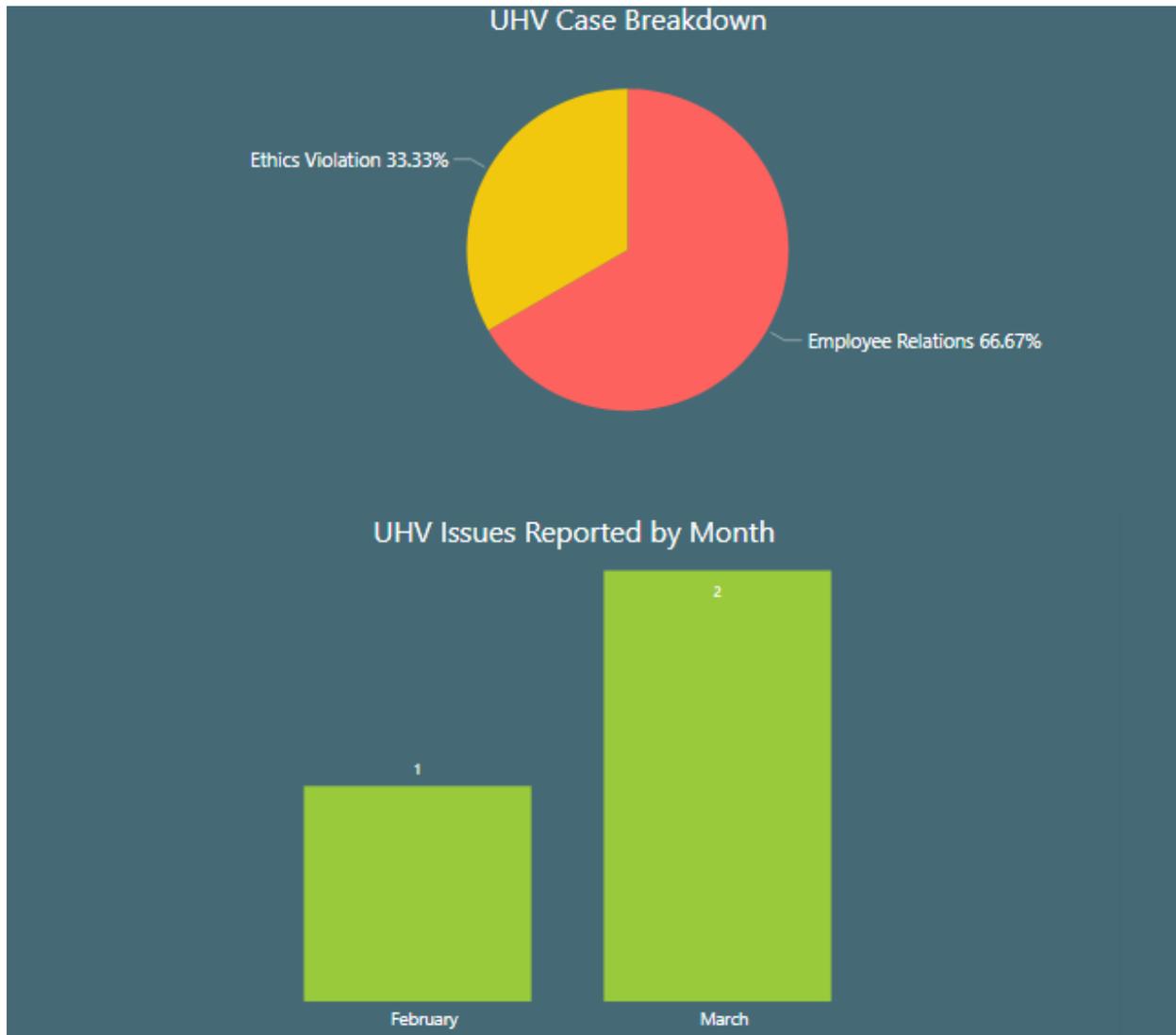
Hotline reports for University of Houston Clear Lake



Hotline reports for University of Houston Downtown



Hotline reports for University of Houston Victoria



UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Audit and Compliance

ITEM: Report on External Audit Report – University of Houston System, External Audit Report: Houston Public Media (A Division of the University of Houston System), Independent Auditor’s Report and Financial Statements, Years Ended August 31, 2020 and August 31, 2019

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Audit and Compliance Committee Charter and Checklist; item number 13, requires the Committee to review any significant findings and recommendation of the State Auditor and any employed public accounting firm or other outside expertise.

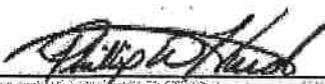
The external audit report is required by the Corporation for Public Broadcasting.

SUPPORTING DOCUMENTATION: Houston Public Media (A Division of the University of Houston System), Independent Auditor’s Report and Financial Statements, Year Ended August 31, 2020 and August 31, 2019

FISCAL NOTE:

RECOMMENDATION/
ACTION REQUESTED: Information

COMPONENT: University of Houston System



CHIEF AUDIT EXECUTIVE Phillip W. Hurd

4-30-2021

DATE



CHANCELLOR Renu Khator

5/17/2021

DATE

Board of Regents
University of Houston System
Houston, Texas

As part of our audit of the financial statements of Houston Public Media (the Station), a division of the University of Houston System as of and for the year ended August 31, 2020, we wish to communicate the following to you.

Audit Scope and Results

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Station's significant accounting policies are described in Note 2 of the audited financial statements.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Net pension liability, pension expense, and related deferred inflows/outflows
- Other post-employment benefits (OPEB) liability, OPEB expense and related deferred inflows/outflows
- Fair value of endowment investments

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Component Unit - Houston Public Media Foundation
- Pension plan
- Other post-employment benefits

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. A misstatement is a difference between the amount, classification, presentation or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

- Proposed audit adjustments recorded:
 - Pension and OPEB liabilities:
 - AJE #1 and 3: to close out prior year balance on the expense accounts to beginning net position related to GASB 68 and 75

- Investments:
 - RJE #5: to true-up restricted expendable/non-expendable net position to match current year endowment investment
 - RJE #13: to allocate expendable and non-expendable net position based on the endowment investments Endowment Investment Income
- AJE #8: to record the current year note payable activity and the impact to net investment in capital assets
- AJE #9: to adjust beginning net position
- Proposed audit adjustments not recorded:
 - Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, but more than trivial to the financial statements as a whole.

Auditor's Judgments About the Quality of the Station's Accounting Principles

No matters are reportable.

Other Information in Documents Containing Audited Financial Statements

No matters are reportable.

Disagreements With Management

No matters are reportable.

Consultation With Other Accountants

No matters are reportable.

Significant Issues Discussed With Management

No matters are reportable.

Difficulties Encountered in Performing the Audit

No matters are reportable.

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter (attached)
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Station as of and for the year ended August 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Station's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Station's internal control. Accordingly, we do not express an opinion on the effectiveness of the Station's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Station's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be deficiencies.

Deficiencies

Audit Adjustments

As part of our audit procedures, we proposed several adjusting entries in order to properly account for beginning net position, investments, note payable, and net investment in capital assets. We recommend internal accounting process be reviewed to determine what modifications, if any, should be made to existing processes and controls to capture and accurately record amounts so that adjustments necessary for accurate

annual financial statements are made. Existing processes should ensure that management timely reviews all reconciliations and supporting schedules associated with general ledger accounts impacted by these adjustments. Internal controls would be enhanced by documenting, through the utilization of a monthly closing checklist, the execution of these review processes.

This communication is intended solely for the information and use of management, the University of Houston Board of Regents, and others within the Station, and is not intended to be, and should not be, used by anyone other than these specified parties.

BKD, LLP

March 5, 2021

Houston Public Media

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflect the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	137,167		137,167	
Non-Current Assets & Deferred Outflows	14,780,214		14,780,214	
Current Liabilities	(1,159,559)	(41,391)	(1,200,950)	3.57%
Non-Current Liabilities & Deferred Inflows	(19,335,126)	41,391	(19,293,735)	-0.21%
Current Ratio	0.118		0.114	-3.39%
Total Assets & Deferred Outflows	14,917,381		14,917,381	
Total Liabilities & Deferred Inflows	(20,494,685)		(20,494,685)	
Total Net Position	5,577,304		5,577,304	
Operating Revenues	(24,225,919)	33,824	(24,192,095)	-0.14%
Operating Expenses	27,523,358	(17,086)	27,506,272	-0.06%
Nonoperating (Revenues) Exp	(91,282)	(28,703)	(119,985)	31.44%
Change in Net Position	(3,206,157)	(11,965)	(3,218,122)	0.37%

Client: Houston Public Media
Period Ending: August 31, 2020

Major Enterprise Fund
SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Financial Statement Line Item	Factual (F), Judgmental (J) or Projected (P)	Assets & Deferred Outflows				Liabilities & Deferred Inflows				Operating				Nonoperating		Net Effect on Following Year					
			Current		Noncurrent		Current		Noncurrent		Revenues		Expenses		(Revenues) Exp		Net Position		Change in Net Position		Net Position	
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)
Turnaround effect of accrual of		F	0	0	0	0	0	0	0	0	(17,086)	0	17,086	0	0	0	0	0	0	0	0	
	Operating Expenses										(17,086)											
	Net position												17,086									
Turnaround effect of program revenue received in 2019 recorded in 2020		F	0	0	0	0	0	0	0	33,824	0	0	(33,824)	0	0	0	0	0	0	0	0	
	Net position												(33,824)									
	Operating Revenue									33,824												
To adjust current and noncurrent NOL per State Controller report		F	0	0	(41,391)	41,391	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
	NOL (NC)					41,391																
	NOL (CL)				(41,391)																	
To record income and expenses related to investments in the correct account		F	0	0	0	0	0	0	0	0	0	(28,703)	28,703	0	0	0	0	0	0	0	0	
	Net position												28,703									
	Realized gain											(42,882)										
	Int /Div income											(15,999)										
	Expenses											30,178										
Total passed adjustments			0	0	(41,391)	41,391	0	0	0	33,824	(17,086)	(28,703)	11,965	0	0	0	0	0	0	0	0	
			Impact on Change in Net Position											(11,965)								
			Impact on Net Position											0								

Representation of:
Houston Public Media
4343 Elgin Street
Houston, Texas 77204

Provided to:
BKD, LLP
Certified Public Accountants
2700 Post Oak Boulevard, Suite 1500
Houston, Texas 77056

The undersigned (We) are providing this letter in connection with BKD's audits of our financial statements of Houston Public Media (the Stations), a division of the University of Houston System, as of and for the years ended August 31, 2020 and 2019.

Our representations are current and effective as of the date of BKD's report: March 5, 2021.

Our engagement with BKD is based on our contract for services dated: July 13, 2020.

Our Responsibility and Consideration of Material Matters

We confirm that we are responsible for the fair presentation of the financial statements subject to BKD's report in conformity with accounting principles generally accepted in the United States of America.

We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Confirmation of Matters Specific to the Subject Matter of BKD's Report

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our contract, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

2. We acknowledge our responsibility for the design, implementation and maintenance of:
 - (a) Internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
 - (b) Internal control to prevent and detect fraud.
3. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.
4. We have provided you with:
 - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
 - (b) Additional information that you have requested from us for the purpose of the audit.
 - (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - (d) All minutes of meetings of the governing body held through the date of this letter or summaries of actions of recent meetings for which minutes have not yet been prepared. All unsigned copies of minutes provided to you are copies of our original minutes approved by the governing body, if applicable, and maintained as part of our records.
 - (e) All significant contracts and grants.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. We have informed you of all current risks of a material amount that are not adequately prevented or detected by entity procedures with respect to:
 - (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets, liabilities or net position.
7. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
8. We have no knowledge of any known or suspected fraudulent financial reporting or misappropriation of assets involving:
 - (a) Management or employees who have significant roles in internal control, or
 - (b) Others, where activities of others could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, customers, regulators, suppliers or others.

10. We have assessed the risk that the financial statements may be materially misstated as a result of fraud and disclosed to you any such risk identified.
11. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
- We understand that the term related party refers to an affiliate; management, and members of their immediate families, component units; and any other party with which the entity may deal if it can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the entity.
12. Except as reflected in the financial statements, there are no:
- (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial records.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.
 - (e) Agreements to purchase assets previously sold.
 - (f) Restrictions on cash balances or compensating balance agreements.
 - (g) Guarantees, whether written or oral, under which the Stations are contingently liable.
13. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
14. We have no reason to believe the Stations owe any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.
- We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.
15. Adequate provisions and allowances have been accrued for any material losses from:
- (a) Uncollectible receivables.
 - (b) Purchase commitments in excess of normal requirements or above prevailing market prices.

16. Except as disclosed in the financial statements, the Stations have:
 - (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
 - (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.
17. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
18. With regard to deposit and investment activities:
 - (a) All deposit, and investment transactions have been made in accordance with legal and contractual requirements.
 - (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
 - (c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.
19. With respect to any nonattest services you have provided us during the year, including preparation of the financial statements, related notes and supplemental schedules:
 - (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
 - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - (d) We have evaluated the adequacy of the services performed and any findings that resulted.
20. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
21. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.

22. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis and pension and other employment benefit information, has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.
23. With regard to supplementary information:
- (a) We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.
 - (b) We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.
 - (c) The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.
 - (d) We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.
 - (e) If the supplementary information is not presented with the audited financial statements, we acknowledge we will make the audited financial statements readily available to intended users of the supplementary information no later than the date such information and the related auditor's report are issued.
24. We have reviewed the actuarial assumptions applied to the Stations' pension and other postemployment benefits (OPEB) plan in calculating the net pension and total OPEB liability, related expense and other components and have determined that those assumptions are reasonable.
25. We acknowledge the current economic volatility continues to present difficult circumstances and challenges for our industry. Entities may be facing declines in the fair values of investments and other assets, declines in the volume of business, constraints on liquidity and difficulty obtaining financing. We understand the values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values, allowances for accounts receivable, etc. that could negatively impact the entity' ability to maintain sufficient liquidity.

We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the Stations' financial statements. Further, management and the Board are solely responsible for all aspects of managing the Stations, including questioning the quality and valuation of investments, inventory and other assets, reviewing allowances for uncollectible amounts and evaluating capital needs and liquidity plans.

26. Net position is properly recorded based on the provisions of GASB Statements 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*

DocuSigned by:

Lisa Shumate

493866AEC4924FF

Lisa Shumate, Associate Vice President and
General Manager of Houston Public Media

DocuSigned by:

Devi Bala

B4C8F31B2349445...

Devi Bala, Assistant Vice President, Business
Service, University of Houston

DocuSigned by:

Al Hopkins

00B3EB4E177C4C3...

Almarie Hopkins, Assistant Director of Business
Operations

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)
Independent Auditor's Report and Financial Statements
August 31, 2020 and 2019



HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

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Independent Auditor's Report

Board of Regents
University of Houston System
Houston, Texas

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Houston Public Media (the Stations), a division of the University of Houston System (the UH System), as of and for the years ended August 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Stations' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Stations as of August 31, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the financial statements of the Stations, and do not purport to, and do not, present fairly the financial position of the UH System as of August 31, 2020 and 2019, the changes in its financial position or its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and other postemployment benefit information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Stations' basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

Houston, Texas
March 5, 2021

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Management's Discussion and Analysis
Years Ended August 31, 2020 and 2019

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the activities and the financial position of Houston Public Media (the Stations), a division of the University of Houston (UH) System (the UH System), as of and for the years ended August 31, 2020 and 2019. This MD&A offers a summary of significant current year activities of the Stations, resulting changes in net position and currently known economic conditions and facts. This analysis should be read in conjunction with the Stations' financial statements and the notes to the financial statements. Responsibility of the financial statements, related note disclosures and MD&A rests with the Stations' management.

The Stations, licensed to the Board of Regents of the UH System, are located at the UH System's Central campus and are a division of UH. Houston Public Media Foundation (HPMF) is a legally separate and tax-exempt entity meeting the criteria to be discretely presented as a component unit.

Overview of the Financial Statements

The Stations herewith present their financial statements for fiscal years ended August 31, 2020 and 2019. The financial statements have been prepared in accordance with the standards of the Governmental Accounting Standards Board, which establishes accounting principles generally accepted in the United States of America for state and local governments. The three primary financial statements presented are the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. The information contained in the financial statements of the Stations is incorporated within the UH System's Annual Financial Report.

Financial Statements

The financial statements consist of the following:

The *statement of net position* reflects the Stations' assets, deferred outflows of resources, liabilities and deferred inflows of resources using the economic resources measurement focus and accrual basis of accounting, and represents the financial position as of the conclusion of the fiscal year. Net position is equal to assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Unrestricted net position is available to the Stations for any lawful purpose. Unrestricted net position often has constraints imposed by management, which can be removed or modified. Net investment in capital assets represents the original acquisition value of capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Restricted net position represents net position that can be utilized only in accordance with third-party imposed restrictions.

The *statement of revenues, expenses and changes in net position* identifies operating revenues received by the Stations. Additionally, the operating expenses incurred by the Stations during the fiscal year are displayed. Any revenues or expenses resulting from other than operations would also be displayed on this statement.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Management's Discussion and Analysis
Years Ended August 31, 2020 and 2019

The *statement of cash flows* reflects the inflows and outflows of cash and cash equivalents and shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the statement of net position described above. In addition, this statement reconciles cash flows from operating activities to operating income (loss) on the statement of revenues, expenses and changes in net position described above.

This MD&A uses the prior fiscal year as a reference point in illustrating issues and trends for determining whether the Stations' financial health may have improved or deteriorated.

Condensed Financial Information

Summary of Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets:			
Current assets	\$ 137,167	607,299	58,137
Capital assets, net	3,318,674	3,970,165	4,925,615
Other noncurrent assets	<u>1,783,015</u>	<u>1,659,073</u>	<u>1,669,811</u>
Total assets	5,238,856	6,236,537	6,653,563
Deferred outflows of resources – pension	3,808,899	5,003,842	581,094
Deferred outflows of resources – OPEB	<u>5,869,626</u>	<u>6,761,092</u>	<u>21,342</u>
Total assets and deferred outflows of resources	<u>\$ 14,917,381</u>	<u>18,001,471</u>	<u>7,255,999</u>
Liabilities:			
Current liabilities	\$ 1,159,559	1,164,325	5,228,599
Noncurrent liabilities	<u>15,037,254</u>	<u>15,592,166</u>	<u>4,948,284</u>
Total liabilities	16,196,813	16,756,491	10,176,883
Deferred inflows of resources – pension	1,956,065	715,205	950,811
Deferred inflows of resources – OPEB	<u>2,341,807</u>	<u>2,900,922</u>	<u>452,518</u>
Total liabilities and deferred inflows of resources	<u>\$ 20,494,685</u>	<u>20,372,618</u>	<u>11,580,212</u>
Net position (deficit):			
Net investment in capital assets	\$ 3,318,674	3,954,024	4,829,089
Restricted for endowment funds	1,782,266	1,659,073	1,669,811
Unrestricted deficit	<u>(10,678,244)</u>	<u>(7,984,244)</u>	<u>(10,823,113)</u>
Total net position (deficit)	<u>\$ (5,577,304)</u>	<u>(2,371,147)</u>	<u>(4,324,213)</u>

HOUSTON PUBLIC MEDIA
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Management's Discussion and Analysis
Years Ended August 31, 2020 and 2019

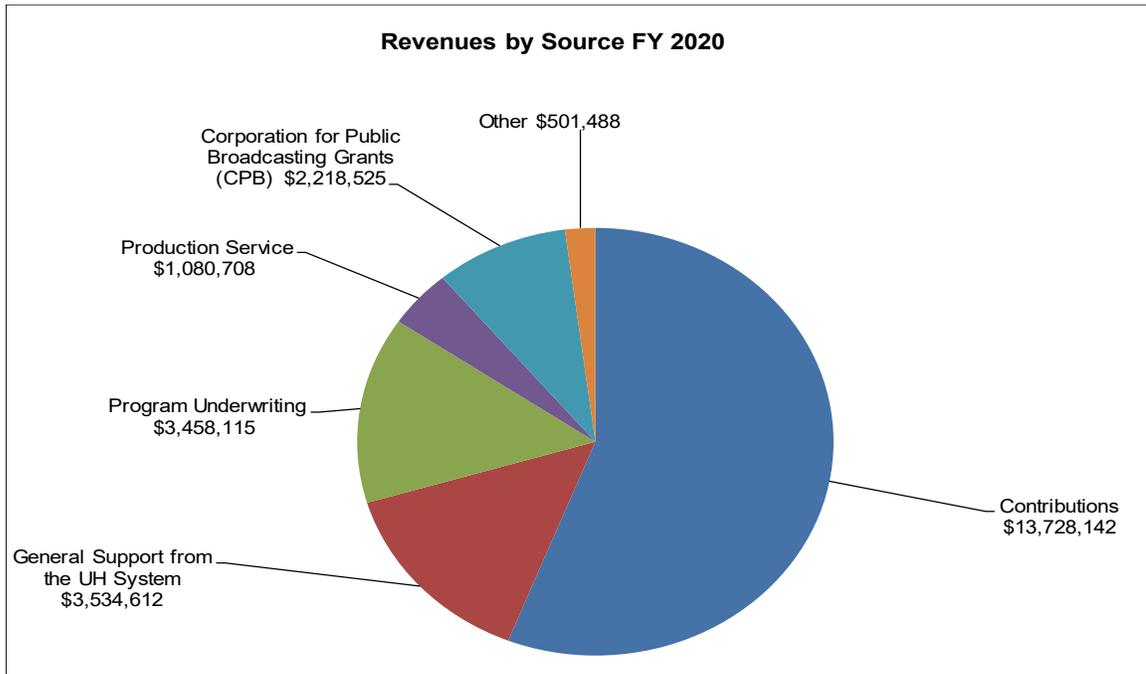
	2020	2019	2018
Operating revenues	\$ 24,521,590	26,241,679	24,063,699
Operating expenses	27,819,029	24,370,661	21,334,736
Operating income (loss)	(3,297,439)	1,871,018	2,728,963
Nonoperating income (loss):			
Endowment contributions (distributions)	(58,491)	(57,499)	1,205
Gain from endowment	138,635	46,761	123,013
Other nonoperating income	11,138	92,786	113,970
Change in net position	(3,206,157)	1,953,066	2,967,151
Net position (deficit), beginning of year	(2,371,147)	(4,324,213)	(7,291,364)
Net position (deficit), end of year	\$ (5,577,304)	(2,371,147)	(4,324,213)

Operating revenues include sources that are primarily used to provide services to the Stations' viewers and listeners. The following schedule presents a summary and comparison of revenues for the fiscal years ended August 31, 2020, 2019 and 2018:

Revenues by Source	FY20		FY19		FY18		2020-2019 Increase (Decrease)		2019-2018 Increase (Decrease)	
	(A) Amount	% of Total	(B) Amount	% of Total	(C) Amount	% of Total	(A-B) Amount	% of Total	(B-C) Amount	% of Total
<u>Operating revenues:</u>										
Contributions	\$ 13,728,142	56%	15,680,322	60%	12,861,682	53%	(1,952,180)	113%	2,818,640	129%
General support from the UH System	3,534,612	14%	3,352,847	13%	3,710,830	15%	181,765	-11%	(357,983)	-16%
Program underwriting	3,458,115	14%	3,312,716	13%	3,278,399	14%	145,399	-8%	34,317	2%
Production service Corporation for Public	1,080,708	4%	1,250,269	5%	640,543	3%	(169,561)	10%	609,726	28%
Broadcasting (CPB) grants	2,218,525	9%	1,963,671	7%	2,157,791	9%	254,854	-15%	(194,120)	-9%
Special events	6,834	0%	7,013	0%	9,014	0%	(179)	0%	(2,001)	0%
Other	494,654	2%	674,841	3%	1,405,440	6%	(180,187)	10%	(730,599)	-34%
Total operating revenues	\$ 24,521,590	100%	26,241,679	100%	24,063,699	100%	(1,720,089)	-7%	2,177,980	9%

HOUSTON PUBLIC MEDIA
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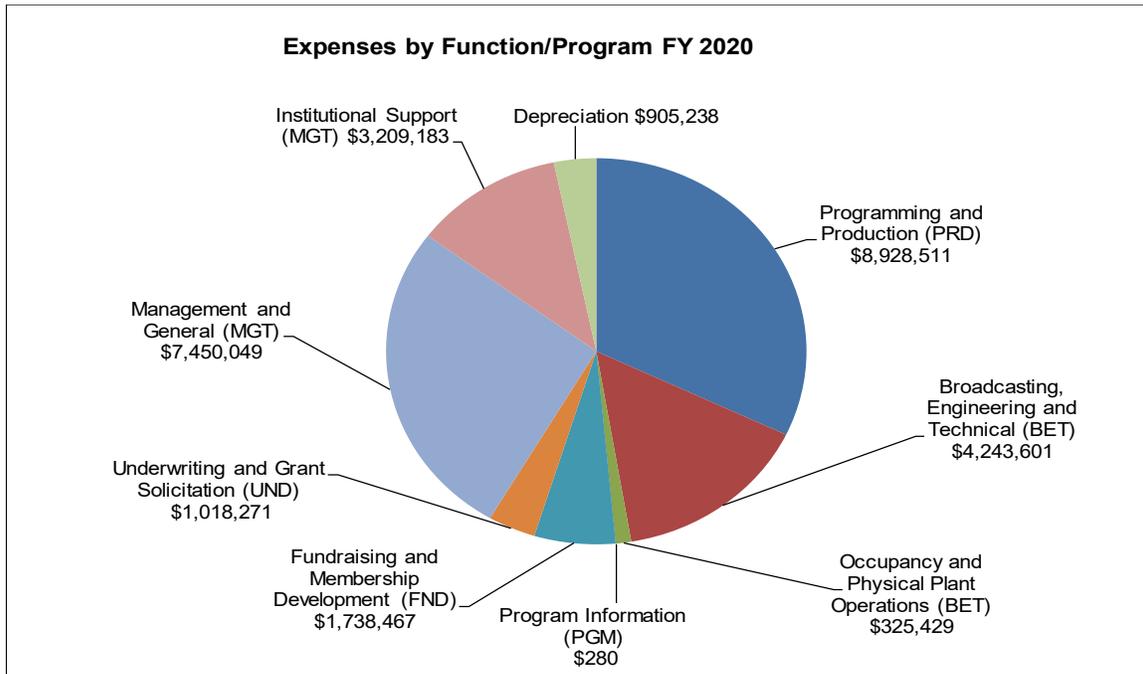
Management's Discussion and Analysis
Years Ended August 31, 2020 and 2019



Operating expenses are the costs necessary to provide those services and to fulfill the mission of the Stations. Alternatively, operating expenses categorized using the natural classification method are disclosed in the schedules of functional expenses. The following schedule presents a summary and comparison of expense for the fiscal years ended August 31, 2020, 2019 and 2018:

Expenses by Function	FY20		FY19		FY18		2020-2019		2019-2018	
	(A) Amount	% of Total	(B) Amount	% of Total	(C) Amount	% of Total	(A-B) Amount	% of Total	(B-C) Amount	% of Total
<u>Operating expenses:</u>										
Programming and production (PRD) \$	8,928,511	32%	8,619,318	35%	8,368,070	39%	309,193	9%	251,248	8%
Broadcasting, engineering and technical (BET)	4,243,601	14%	2,574,406	10%	2,618,130	12%	1,669,195	48%	(43,724)	-1%
Occupancy and physical plant operations (BET)	325,429	1%	325,429	1%	325,427	2%	-	0%	2	0%
Program information (PGM)	280	0%	4,967	0%	1,679	0%	(4,687)	0%	3,288	0%
Fundraising and membership development (FND)	1,738,467	6%	2,677,282	11%	3,030,798	14%	(938,815)	-27%	(353,516)	-12%
Underwriting and grant solicitation (UND)	1,018,271	4%	319,353	1%	50,118	0%	698,918	20%	269,235	9%
Management and general (MGT)	7,450,049	27%	5,844,822	24%	2,613,659	12%	1,605,227	47%	3,231,163	106%
Institutional support (MGT)	3,209,183	12%	3,027,418	12%	3,385,403	16%	181,765	5%	(357,985)	-12%
Depreciation	905,238	3%	977,666	4%	941,452	4%	(72,428)	-2%	36,214	1%
Total operating expenses	\$ 27,819,029	101%	24,370,661	100%	21,334,736	100%	3,448,368	14%	3,035,925	14%

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)
Management's Discussion and Analysis
Years Ended August 31, 2020 and 2019



Financial Highlights and Analysis

Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources – Fiscal Year 2020 Compared to Fiscal Year 2019

- Current assets decreased primarily due to large expenditures for Houston Public Media's tower and transmitter consolidation and relocation project. Individual capital equipment purchases fell just below the \$500,000 University of Houston threshold. As a result, these expenditures are being treated as operational expenses and reduced HPM's final cash position.
- There were increases in the market values for the investments restricted for endowments.
- HPM saw an overall decrease in current liabilities due to decreases in accrued payroll expenses, accrued employee compensable leave and accrued accounts payable. The HPM Chiller note payable balance was fully paid off.
- Non-current liabilities decreased primarily due to changes in the Stations' share of net pension and net other postemployment benefit liabilities.

Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources – Fiscal Year 2019 Compared to Fiscal Year 2018

- Current assets increased by \$549,162 due to an increase in cash and cash equivalents and film rights acquired.
- Capital assets decreased by \$955,450 primarily due to current year depreciation on capital assets.

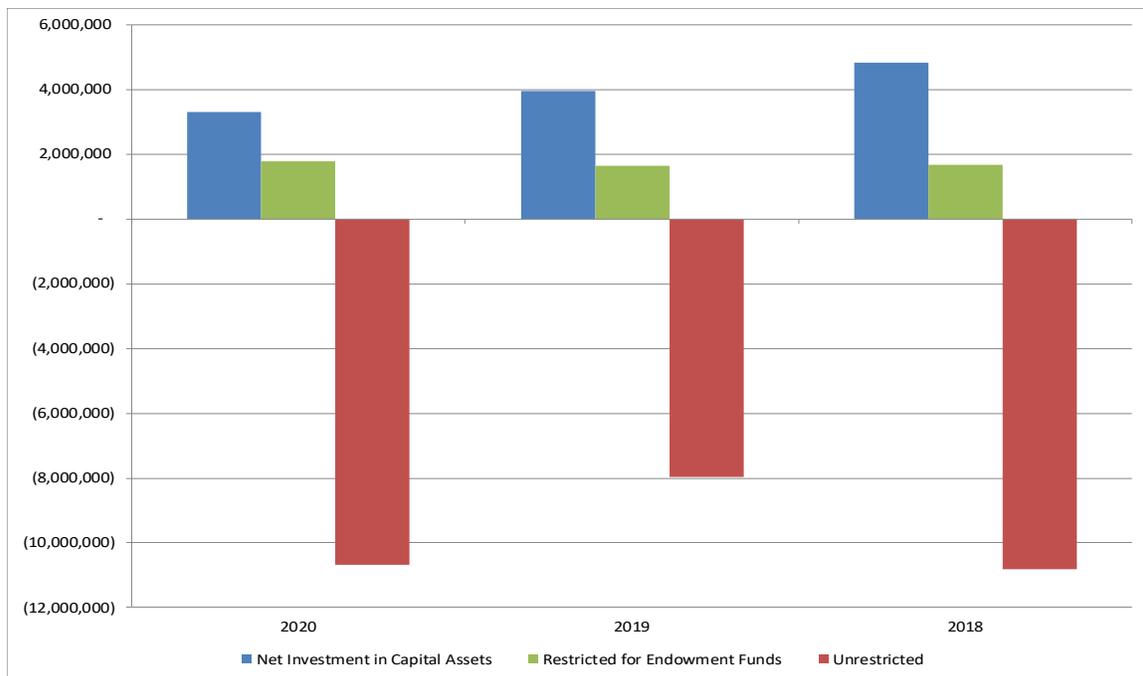
HOUSTON PUBLIC MEDIA
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Management's Discussion and Analysis

Years Ended August 31, 2020 and 2019

- Other noncurrent assets decreased by \$10,738 mainly due to decrease in market values for investments restricted for endowments.
- Deferred outflows of resources increased by \$11,162,498 due to changes in the Stations' share of the future outflows related to pensions and other postemployment benefits.
- Current liabilities decreased by \$4,064,274, primarily due to decreases in amounts owed to the UH System.
- Non-current liabilities increased \$10,643,882 mainly due to changes in net pension liabilities and net other postemployment benefit liabilities.
- Deferred inflows of resources increased by \$2,212,798 due to changes in the Stations' share of the future inflows related to pensions and other postemployment benefits.

The following graph illustrates net position in the different categories for fiscal years 2020, 2019 and 2018:



Operating Revenues – Fiscal Year 2020 Compared to Fiscal Year 2019

Houston Public Media's revenue from contributions decreased by \$1,952,180. Other revenue channels remained strong in fiscal year 2020. There were revenue increases to memberships and underwriting and the CPB received additional funds for COVID relief, which was distributed to stations resulting in approximately \$255,000 in additional grant.

Operating Revenues – Fiscal Year 2019 Compared to Fiscal Year 2018

Operating revenues increased by \$2,177,980 due to increased contributions and services provided to the University.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Management's Discussion and Analysis
Years Ended August 31, 2020 and 2019

Operating Expenses – Fiscal Year 2020 Compared to Fiscal Year 2019

Operating expense variances were primarily driven by capital equipment purchases falling below \$500,000 single item University threshold and treated as operational expenses. This accounts for approximately \$1.5 million increase in 2020. Additionally, programming expenses were up approximately \$300,000 due to vendor increases. Salaries and benefits were flat year over year. Travel and other discretionary expenses were closely managed in response to anticipated revenue impact resulting from COVID-19 business disruptions.

Operating Expenses – Fiscal Year 2019 Compared to Fiscal Year 2018

The Stations' expenses increased by \$3,035,925, primarily due to increased pension and Other Postemployment Benefit (OPEB) related fringe benefit expenses.

Capital Asset and Debt Administration

As of the end of fiscal 2020, the Stations had \$3,318,674 of capital assets, net of accumulated depreciation. These assets included buildings and building improvements, furniture and equipment, vehicles, land, and indefinite-lived intangible assets.

Title to these assets resides with the UH System, which allocates custody of the assets to the Stations for its operational needs. Accountability for capital assets is consistent with policies established by the State of Texas. Assets are depreciated over their recommended useful lives. The Stations capitalize assets when the acquisition cost exceeds certain threshold values. Funds for the acquisition of capital assets are provided from the Stations' operating revenues.

Budgetary Revenues

The following table summarizes the Stations' final budget, actual results and variance for revenues for the year ended August 31, 2020:

	Budgeted amounts final	Actual	Variance with final budget favorable (unfavorable)
Operating revenues:			
Contributions	\$ 15,621,480	13,728,142	(1,893,338)
General support from the UH System	3,063,138	3,534,612	471,474
Program underwriting	3,313,800	3,458,115	144,315
Production service	1,455,671	1,080,708	(374,963)
CPB grants	1,963,671	2,218,525	254,854
Other	500,000	501,488	1,488
Total operating revenues	<u>\$ 25,917,760</u>	<u>24,521,590</u>	<u>(1,396,170)</u>

The variance for actual versus budgeted revenue was due to the following:

- Contributions and Production service actual revenue did not meet the 2020 budget projections primarily because of COVID-related ramifications.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Management's Discussion and Analysis
Years Ended August 31, 2020 and 2019

Budgetary Expenses

The following table summarizes the Stations' final budget, actual results and variance for expenses for the year ended August 31, 2020:

	Budgeted amounts final	Actual	Variance with final budget favorable (unfavorable)
Operating expenses:			
Programming and production (PRD)	\$ 9,137,365	8,928,511	208,854
Broadcasting, engineering and technical (BET)	2,632,061	4,243,601	(1,611,540)
Occupancy and physical plant operations (BET)	325,429	325,429	-
Program information (PGM)	4,967	280	4,687
Fundraising and membership development (FND)	2,030,798	1,738,467	292,331
Underwriting and grant solicitation (UND)	1,254,609	1,018,271	236,338
Management and general (MGT)	6,844,822	7,450,049	(605,227)
Institutional support (MGT)	2,737,709	3,209,183	(471,474)
Depreciation	950,000	905,238	44,762
Total operating expenses	<u>\$ 25,917,760</u>	<u>27,819,029</u>	<u>(1,901,269)</u>

The variance for actual versus budgeted expense was due to the following:

- BET – There was an increase in new business related to technology upgrades, including new servers for the HPM main site and computers for all staff members. There was also an increase in new business related to the tower relocation and old tower site decommissioning projects. The majority of these purchases were not introduced for consideration during the FY2020 budget planning processes.
- MGT – Management exceeded the annual budget in this area primarily due to additional expenses attributed to increases in pension-related and indirect support expenses. Both expense categories' increases resulted from the HPM's increased portions of the UH System's expenses for these categories.

Requests for Information

Questions regarding the information provided in this Annual Financial Report or requests for additional financial information should be addressed to the Director of Finance, Houston Public Media at: KUHF-FM & KUHT-TV, 4343 Elgin, Houston, Texas 77204-0008.

BASIC FINANCIAL STATEMENTS

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Statements of Net Position
August 31, 2020 and 2019

	2020		2019	
	Primary institution	Component unit (HPMF)	Primary institution	Component unit (HPMF)
Assets				
Current assets:				
Cash and cash equivalents	\$ 37,397	738,047	515,129	1,056,012
Accounts receivable	-	554,960	3	811,457
Restricted cash and equivalents	-	226,793	-	226,793
Film rights, net	99,770	-	92,167	-
Total current assets	137,167	1,519,800	607,299	2,094,262
Noncurrent assets:				
Capital assets, net	3,318,674	14,100	3,970,165	14,100
Investments restricted for endowment	1,783,015	1,672,247	1,659,073	1,678,894
Total noncurrent assets	5,101,689	1,686,347	5,629,238	1,692,994
Total assets	5,238,856	3,206,147	6,236,537	3,787,256
Deferred Outflows of Resources				
Pension-related	3,808,899	-	5,003,842	-
Other postemployment benefits	5,869,626	-	6,761,092	-
Total deferred outflows of resources	9,678,525	-	11,764,934	-
Total assets and deferred outflows of resources	\$ 14,917,381	3,206,147	18,001,471	3,787,256

See accompanying notes to basic financial statements.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Statements of Net Position (Continued)

August 31, 2020 and 2019

	<u>2020</u>		<u>2019</u>	
	<u>Primary institution</u>	<u>Component unit (HPMF)</u>	<u>Primary institution</u>	<u>Component unit (HPMF)</u>
Liabilities				
Current liabilities:				
Accounts payable	\$ 15,030	213,716	17,670	90,498
Accrued payroll	493,838	-	513,151	-
Employees' compensable leave	378,833	-	416,987	-
Unearned revenue	-	273,617	-	199,403
Net other postemployment benefits liability	271,858	-	200,376	-
Note payable (HPM Chiller)	-	-	16,141	-
Total current liabilities	<u>1,159,559</u>	<u>487,333</u>	<u>1,164,325</u>	<u>289,901</u>
Noncurrent liabilities:				
Net pension liability	6,448,647	-	8,051,020	-
Net other postemployment benefits liability	8,588,607	-	7,541,146	-
Total noncurrent liabilities	<u>15,037,254</u>	<u>-</u>	<u>15,592,166</u>	<u>-</u>
Total liabilities	16,196,813	487,333	16,756,491	289,901
Deferred Inflows of Resources				
Pension-related	1,956,065	-	715,205	-
Other postemployment benefits	2,341,807	-	2,900,922	-
Total liabilities and deferred inflows of resources	<u>\$ 20,494,685</u>	<u>487,333</u>	<u>20,372,618</u>	<u>289,901</u>
Net Position				
Net investment in capital assets	\$ 3,318,674	14,100	3,954,024	14,100
Restricted:				
Nonexpendable	1,547,744	1,678,894	1,547,744	1,552,524
Expendable for production and outreach programs	-	226,793	-	226,793
Expendable	234,522	264,939	111,329	304,658
Unrestricted (deficit)	<u>(10,678,244)</u>	<u>534,088</u>	<u>(7,984,244)</u>	<u>1,399,280</u>
Total net position (deficit)	<u>\$ (5,577,304)</u>	<u>2,718,814</u>	<u>(2,371,147)</u>	<u>3,497,355</u>

See accompanying notes to basic financial statements.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended August 31, 2020 and 2019

	2020		2019	
	Primary institution	Component unit (HPMF)	Primary institution	Component unit (HPMF)
Operating revenues:				
Contributions	\$ 13,728,142	11,751,349	15,680,322	11,061,254
General support from the UH System	3,534,612	-	3,352,847	-
Program underwriting	3,458,115	4,134,161	3,312,716	4,664,283
Production service	1,080,708	4,774	1,250,269	4,899
Corporation for Public Broadcasting (CPB) grants	2,218,525	-	1,963,671	-
Royalties	-	-	4,993	-
Rental income	-	-	375,516	-
Special events	6,834	-	7,013	-
Other	494,654	68,650	294,332	178,290
Total operating revenues	<u>24,521,590</u>	<u>15,958,934</u>	<u>26,241,679</u>	<u>15,908,726</u>
Operating expenses:				
Grants to primary institution	-	13,698,282	-	12,583,748
Programming and production (PRD)	8,928,511	76,648	8,619,318	137,225
Broadcasting, engineering and technical (BET)	4,243,601	10,091	2,574,406	44,400
Occupancy and physical plant operations (BET)	325,429	-	325,429	-
Program information (PGM)	280	-	4,967	6,953
Fundraising and membership development (FND)	1,738,467	1,473,799	2,677,282	1,381,599
Underwriting and grant solicitation (UND)	1,018,271	1,071,025	319,353	1,114,834
Management and general (MGT)	7,450,049	400,983	5,844,822	180,003
Institutional support (MGT)	3,209,183	-	3,027,418	-
Innovation and sustainability	-	-	-	2,020,268
Depreciation	905,238	-	977,666	-
Total operating expenses	<u>27,819,029</u>	<u>16,730,828</u>	<u>24,370,661</u>	<u>17,469,030</u>
Operating income (loss)	<u>(3,297,439)</u>	<u>(771,894)</u>	<u>1,871,018</u>	<u>(1,560,304)</u>
Nonoperating income (loss):				
Endowment contributions (distributions)	(58,491)	18,000	(57,499)	-
Gain (loss) from endowment	138,635	(24,647)	46,761	15,338
Other nonoperating income	11,138	-	92,786	-
Total nonoperating income (loss)	<u>91,282</u>	<u>(6,647)</u>	<u>82,048</u>	<u>15,338</u>
Change in net position	<u>(3,206,157)</u>	<u>(778,541)</u>	<u>1,953,066</u>	<u>(1,544,966)</u>
Net position (deficit), beginning of year	<u>(2,371,147)</u>	<u>3,497,355</u>	<u>(4,324,213)</u>	<u>5,042,321</u>
Net position (deficit), end of year	<u>\$ (5,577,304)</u>	<u>2,718,814</u>	<u>(2,371,147)</u>	<u>3,497,355</u>

See accompanying notes to basic financial statements.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Statements of Cash Flows

Years Ended August 31, 2020 and 2019

	2020	2019
	Primary institution	Primary institution
Cash flows from operating activities:		
Proceeds from contributions	\$ 13,728,142	15,680,322
Proceeds from CPB grant	2,218,525	1,963,671
Proceeds from program underwriting	3,458,118	3,312,755
Proceeds from other revenues	1,582,196	1,932,123
Payments to suppliers for goods and services	(2,640,579)	(1,623,506)
Payments to employees	(9,372,987)	(8,824,221)
Payments for broadcasting fees	(4,442,615)	(4,093,506)
Payments for other expenses	(4,588,289)	(3,483,380)
Net cash (used in) provided by operating activities	(57,489)	4,864,258
Cash flows from noncapital financing activities:		
Repayments to the UH System	-	(4,250,365)
Other nonoperating income	11,138	92,786
Net cash provided by (used in) noncapital financing activities	11,138	(4,157,579)
Cash flows from capital and related financing activities:		
Payments for additions to capital assets	(253,747)	(22,216)
Payments for additions of film rights	(117,695)	(88,949)
Payments on note payable (HPM Chiller)	(16,141)	(80,385)
Net cash used in capital and related financing activities	(387,583)	(191,550)
Cash flows from investing activities:		
Other	(43,798)	-
Net cash used in investing activities	(43,798)	-
Change in cash and cash equivalents	(477,732)	515,129
Cash and cash equivalents, beginning of year	515,129	-
Cash and cash equivalents, end of year	\$ 37,397	515,129

See accompanying notes to basic financial statements.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)
Statements of Cash Flows (Continued)
Years Ended August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
	<u>Primary</u>	<u>Primary</u>
	<u>institution</u>	<u>institution</u>
Reconciliation of operating income (loss) to net cash (used in) provided by operating activities:		
Operating income (loss)	\$ (3,297,439)	1,871,018
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:		
Depreciation expense	905,238	977,666
Amortization of film rights	110,092	54,877
Decrease in accounts receivable	3	39
Decrease in accounts payable	(2,640)	(10,753)
Increase (decrease) in accrued payroll	(19,313)	40,429
Increase (decrease) in employees' compensable leave	(38,154)	22,077
(Increase) decrease in deferred outflows of resources – pensions	1,194,943	(4,422,748)
(Increase) decrease in deferred outflows of resources – other postemployment benefits	891,466	(6,739,750)
Increase (decrease) in deferred inflows of resources – pensions	1,240,860	(235,606)
Increase (decrease) in deferred inflows of resources – other postemployment benefits	(559,115)	2,448,404
Increase (decrease) in net pension liability	(1,602,373)	5,163,703
Increase in net other postemployment benefits liability	1,118,943	5,694,902
Total adjustments	<u>3,239,950</u>	<u>2,993,240</u>
Net cash (used in) provided by operating activities	<u>\$ (57,489)</u>	<u>4,864,258</u>

See accompanying notes to basic financial statements.

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Notes to Basic Financial Statements

August 31, 2020 and 2019

(1) Entity

Houston Public Media ("the Stations" or "Primary Institution") of the University of Houston (UH) System (the UH System), which consists of a noncommercial, listener-supported radio station (KUHF) and a viewer-supported television station (KUHT), serves as Houston's National Public Radio (NPR) affiliate and classical music source and Houston's Public Broadcasting Services (PBS) affiliate. KUHF signed on the air in 1950 as a public radio station. KUHT signed on the air on May 25, 1953, as the nation's first noncommercial educational television station. KUHF provides news and cultural programming at both local and national levels. KUHT provides the building blocks for the Stations' schedule with locally produced and acquired programs selected primarily for their appeal to a national audience; programs chosen on the basis of quality and audience interests are presented uninterrupted by commercial announcements. The Stations, licensed to the Board of Regents of the UH System, are located at the UH System's Central campus and are a division of the UH System. As a division of the UH System, the Stations are exempt from federal income taxes other than taxes on unrelated business income, if any. The Stations operate 24 hours a day. The Stations are located in the fourth largest metropolitan area of the United States. These financial statements present financial information that is attributable to the Stations and do not purport to, and do not, present fairly the financial position of the UH System.

The Stations are dedicated to education and outreach through a wide variety of activities, such as community advancement, and expanding and strengthening partnerships and collaborations with key arts organizations in Houston. In pursuing all the dissimilar goals, the Stations have consistently used cutting edge technology to extend the value of its services.

KUHT is a full-service television station licensed to UH. The studio facilities are on the UH campus in the LeRoy and Lucile Melcher Center for Public Broadcasting. The transmitter facilities are located in Missouri City, Texas. The digital video services offered today include one high-definition program service and two standard-definition services. KUHT was the first Houston television station to offer closed captioning for hearing impaired viewers and descriptive video for visually impaired persons. It was the first in Houston to offer stereo broadcasts and the first to make use of the Second Audio Program capabilities to provide additional services to the Greater Houston area, including access to the Houston Taping for the Blind radio service. The broadcast signal reaches 33 counties in southeast Texas and is carried on numerous cable television systems, as well as both the Dish Network and DirecTV satellite services.

KUHF's new media technologies are rapidly developing with the changing landscape of on-demand media around the world. Services include all news and all music internet streams; podcasts; on-demand shows; user interactive event calendars; RSS feeds; and iPhone, Android and iPad applications.

Houston Public Media Foundation (HPMF), formerly known as the Association for Community Broadcasting (ACB) and as the Association for Community Television (ACT), was organized in 1969, as a Texas nonprofit corporation, primarily for the purpose of providing financial and other support to KUHT, Channel 8, in Houston, Texas. On January 25, 2005, the Board of Regents of the UH System and ACT agreed that the same services provided to KUHT would also be provided to KUHF and thus adopted the ACB name. On January 30, 2014, ACB changed its name to HPMF to be more aligned with the station's new branding under the newly formed Houston Public Media division of UH.

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Notes to Basic Financial Statements

August 31, 2020 and 2019

The UH System and HPMF, as part of an ongoing agreement, have stipulated that all grants for the Stations' programming and other activities will be deposited with the UH System's Office of Sponsored Programs or, at the discretion of the general manager of the Stations, deposited in accounts maintained by HPMF and immediately and exclusively available to the Stations.

HPMF is directed by a Board of Directors, who are elected by other HPMF Directors, and is managed on a daily basis by a combination of Board Officers and the Stations' employees. There are no separately issued financial statements of HPMF.

HPMF is a legally separate and tax-exempt entity meeting all of the following criteria to be discretely presented as a component unit. These criteria are as follows:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The financial statements of the Primary Institution and its component unit, HPMF, are presented using the same categories in order to provide consistency. HPMF is not a governmental entity, and as such, current year data has been made to conform to reporting under Governmental Accounting Standards Board (GASB) standards.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The financial accounting records of the Stations and HPMF are maintained by the UH System's Office of the Associate Vice Chancellor for Finance in accordance with accounting principles generally accepted in the United States of America for colleges and universities.

The financial statements for both the Stations and HPMF are presented using the economic resources measurement focus and the accrual basis of accounting whereby revenues are recorded when earned and all expenses are recorded when they have been incurred.

b. Reporting Guidelines

The Stations are reported as a single-purpose business-type activity entity. In addition, the Stations' financial statements have been prepared in accordance with the CPB's *Application Principles of Accounting and Financial Reporting to Public Telecommunications Entities*.

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Notes to Basic Financial Statements

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c. *Deferred Outflows/Inflows of Resources*

Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources and deferred inflows of resources.

d. *Net Position*

Net investment in capital assets – represents the Stations' or HPMF's original acquisition value of capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Nonexpendable restricted net position – represents endowment principal which cannot be used for operational purposes and which is restricted in perpetuity.

Expendable restricted net position – represents income received from an endowment, which are available for purposes restricted by the donors and can include gifts restricted by the donor for a specific purpose.

Unrestricted net position – represents resources that are available for the support of the Stations' or HPMF's operations.

When the Stations or HPMF incur an expense for which both restricted and unrestricted resources may be used, it is the policy of management to use restricted resources first then unrestricted resources.

e. *Revenues*

Operating revenues include sources that are primarily used to provide services to the Stations' audience or to further HPMF's exempt purpose. Substantially, all revenues are considered operating with the exception of net change in fair value of endowments, insurance recoveries and other investment income.

Unrestricted contributions and gifts do not have binding agreements and are recorded as revenues when received. Unrestricted grants are recorded as revenues at the time the grant awards are received and when eligibility requirements have been met. Restricted support and revenues are recognized upon incurring the appropriate expenses or meeting the eligibility requirements.

f. *Accounts Receivable*

Accounts receivable are stated at the amount billed to customers or grantors. Accounts receivable are ordinarily due 30 days after the issuance of an invoice.

g. *Cash and Cash Equivalents*

Cash and cash equivalents are considered to be claims on cash, cash on hand and demand deposits with original maturities of three months or less from the date of acquisition.

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Cash and cash equivalents for the Stations represent the Stations' prorated share of commingled cash and cash equivalents held and invested by the UH System acting as the Stations' fiscal agent to optimize the rate of return. All of the funds included in cash and cash equivalents are insured or registered or are securities held by the UH System or its agent in the UH System's name.

Immediately upon formal written notification of an approved appropriation or grant, the UH System permits the Stations to draw cash against the full appropriation or grant (in compliance with the terms of the appropriation or grant) regardless of whether the UH System has received the related funds.

For current unrestricted and restricted accounts, the UH System allocated a percentage of the interest income earned to the Stations at a fixed rate based on its monthly average cash balance.

h. Capital Assets

Capital assets represent buildings and equipment acquired primarily for the operation of the Stations. Title of the buildings and equipment rests with the State of Texas (the State) in the name of the UH System and, therefore, such assets can be transferred to or from the Stations at the discretion of the UH System. The threshold for capitalization of assets is \$5,000 and over. Capital assets are stated at cost at the date of acquisition or estimated acquisition value at the date of donation. Expenditures for repairs and maintenance are charged to current operating expenses as incurred.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and building improvements	22-30 years
Furniture and equipment	5-10 years
Intangible and other assets	5 years
Land	Not depreciable
Indefinite-lived intangible assets	Not depreciable

Useful lives are established by a uniform classification system maintained by the State and are measured from the date of acquisition.

i. Film Rights

Film rights purchased are amortized over the respective contract periods on a straight-line basis or over the period of expected usage. Estimated useful lives of such rights range from one to five years.

j. In-kind Contributions

In-kind contributions included in revenues and expenses in the accompanying statements of revenues, expenses and changes in net position consist of general support from the UH System, which is further described in Note 9.

The fair value of merchandise contributed by third parties in connection with the Stations' fundraising activities is not included in the accompanying financial statements. Donated in-kind contributions of services and other intangibles, as well as promotional merchandise and donated personal services, are also not included in the accompanying financial statements.

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Notes to Basic Financial Statements

August 31, 2020 and 2019

k. Unearned Revenues

Grant and program underwriting revenues received relating to the period after fiscal year-end are reported as unearned revenues.

l. Advertising

Advertising costs are charged to operations when incurred.

m. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

n. Employees' Compensable Leave

The Stations' employees are classified as State employees and as such are entitled to be paid for all unused vacation time accrued in the event of the employee's resignation, dismissal or separation from State employment provided the employee has had continuous employment with the State for six months. An expense and liability are recorded as the benefits accrue to employees.

Full-time State employees earn annual leave from 8 to 21 hours per month depending on the respective employees' years of State employment. The State's policy is that an employee may carry accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 532 for those employees with 35 or more years of State service. Accrued leave in excess of the normal maximum is converted to sick leave at the conclusion of the fiscal year. Employees with at least six months of State service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed.

o. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Retirement System of Texas (TRS) plan and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

p. Other Postemployment Benefits

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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Notes to Basic Financial Statements

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(3) Endowment Funds

a. Primary Institution

Gifts to the UH System are placed in the UH System's endowment fund (the Endowment Fund), which is a pooled investment of individual endowments benefiting the entire UH System.

The Endowment Fund allocated income (net of management fees) to the individual endowments based on an income allocation policy that establishes the income payment rate as a percentage on the average of the outstanding endowment's fair value in the previous 12 fiscal quarters. That percentage was 4% in fiscal years 2020 and 2019. If an endowment was in existence less than 12 quarters, the average was based on the number of quarters in existence.

The deposits and investments of the Stations and HPMF are exposed to certain inherent risks, such as credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The deposits and investments with the Endowment Fund are exposed to risks that have the potential to result in losses.

Those risks and their definitions are:

- Credit risk – the risk an insurer or counterparty to an investment will not fulfill its obligation.
- Custodial credit risk – the risk that in the case of default by the counterparty a government will be unable to recover its deposit/investment or collateralizing securities in the possession of an outside party. The Federal Depository Insurance Corporation (FDIC) covered cash on deposit up to \$250,000 at each financial institution. As of August 31, 2020 and 2019, HPMF had cash deposits held by Amegy Bank in the amount of approximately \$468,000 and \$855,000, respectively, that were uninsured and uncollateralized. HPM did not have any balances that were uninsured or uncollateralized as of August 31, 2020 or 2019, as all cash balances represent the claim of cash at the UH and not balances held at a financial institution.
- Concentration risk – the risk of loss attributable to the size of a government's investment in a single issuer.
- Interest rate risk – the risk that changes in interest rates will adversely affect the fair value of investments.
- Foreign currency risk – the risk that changes in exchange rates will adversely affect the fair value of a deposit or investment.

During fiscal years 2020 and 2019, the Endowment Management Committee of the UH System Board of Regents continued to review existing objectives, risks, asset allocation and manager structure within the endowment portfolio. The Endowment Fund Statement of Investment Objectives and Policies, among other things, establishes financial objectives for the endowment and an asset allocation with targets and ranges and categorizes each asset class as either a risk reducer or a driver of return. Further information regarding the investment balances and risks with the Endowment Fund, which does not have a credit rating, may be obtained from the UH System Office of the Treasurer.

HOUSTON PUBLIC MEDIA
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Notes to Basic Financial Statements

August 31, 2020 and 2019

The following summarizes the Stations' activity for the years ended August 31, 2020 and 2019:

Balance, September 1, 2018	\$	1,669,811
FY19 net distributions		(57,499)
FY19 unrealized gain		46,761
		1,659,073
Balance, August 31, 2019		1,659,073
FY20 net distributions		(58,491)
FY20 realized/unrealized gain		182,433
		1,783,015
Balance, August 31, 2020	\$	1,783,015

The assets of the Stations' endowments totaled \$1,783,015 and \$1,659,073 at August 31, 2020 and 2019, respectively. Unrealized gains and losses for each year are recorded in the accompanying statements of revenues, expenses and changes in net position.

b. Component Unit (HPMF)

The gifts received by HPMF to create endowed accounts are invested in the HPMF Endowment Fund Investment Pool (the Investment Pool), which is operated and overseen by the HPMF Endowment Fund (the Endowment) and Gift Committee. The Investment Pool combines the assets of all endowment fund accounts and is allocated to external investment managers. The objectives of the Investment Pool are to protect the real value of the Endowment, while maximizing the amount distributed annually for endowed spending as further described in the HPMF Endowment Fund Investment Policy. Thus, in any given year, any excess over the amount distributed from the Endowment will be reinvested to protect the capital against erosion by inflation.

The Endowment's spending policy is consistent with its investment objective of achieving long-term real growth in its assets. In order to achieve such long-term real growth, the Endowment should have as a goal that its total distributions and expenses not exceed the Endowment's total inflation-adjusted return on investments. Consistent with the Endowment's long-term investment objectives, the Board of Directors established the spending policy, which generally permits total distributions and expenses (including but not limited to investment management fees) not in excess of an amount equal to 4% of the average net asset value of the Endowment over the prior three years (or the life of the Endowment if shorter than three years). The Board of Directors may authorize distributions in excess of the 4% when the Stations have the need to fund one-time capital expenditures.

The Endowment has a related operating account to which annual income distributed from the endowment funds is deposited and to which expenditures, in accordance with the donor's wishes, may be charged. In the event that there is a balance in the Endowment operating account at fiscal year-end, it will automatically be transferred back to the endowment funds on a prorated basis (according to the income distributed). This procedure is called "Endowment Capitalization." It is in the Endowment's best interests that surplus funds are capitalized, since they will yield new units and thus generate additional income in future years.

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Notes to Basic Financial Statements

August 31, 2020 and 2019

The Investment Pool is invested with an external investment manager in commingled funds who invests, for example, in marketable securities, fixed income, alternative investments, real estate and cash equivalents. The Investment Pool reported a fair value of \$1,672,247 and \$1,678,894 as of August 31, 2020 and 2019, respectively, which has been estimated by fund managers in the absence of readily available market values and is not publicly traded. These investments are domestic and international in nature and risks associated with these investments include liquidity risk, market risk, event risk, foreign exchange risk, interest rate risk and investment manager risk.

The University of Houston Foundation (U of H Foundation) holds the Investment Pool and does not have a credit rating. Further information regarding the investment balances and risks with the U of H Foundation may be obtained from HPMF business offices by calling 713.748.8888.

The following summarizes HPMF's activity for the years ended August 31, 2020 and 2019:

Balance, September 1, 2018	\$	1,663,556
FY19 realized/unrealized gain		15,338
Balance, August 31, 2019		1,678,894
FY20 net contributions		18,000
FY20 realized/unrealized loss		(24,647)
Balance, August 31, 2020	\$	1,672,247

(4) Accounts Receivable

Accounts receivable as of August 31, 2020, comprised the following:

	Primary institution	Component unit (HPMF)
Accounts receivable	\$ -	554,960
Allowance for doubtful accounts	-	-
Total	\$ -	554,960

Accounts receivable as of August 31, 2019, comprised the following:

	Primary institution	Component unit (HPMF)
Accounts receivable	\$ 3	811,457
Allowance for doubtful accounts	-	-
Total	\$ 3	811,457

Accounts receivable for the Stations and HPMF consist primarily of production grants and underwriting support.

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Notes to Basic Financial Statements

August 31, 2020 and 2019

(5) Capital Assets

Capital asset activities for the year ended August 31, 2020, were as follows for the Stations:

	<u>2019</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2020</u>
Capital assets:				
Buildings and building improvements	\$ 12,706,461	-	-	12,706,461
Furniture and equipment	8,564,451	253,747	1,228,937	7,589,261
Intangible and other assets	75,000	-	-	75,000
Total capital assets	21,345,912	253,747	1,228,937	20,370,722
Less accumulated depreciation	17,375,747	905,238	1,228,937	17,052,048
Net capital assets	<u>\$ 3,970,165</u>	<u>(651,491)</u>	<u>-</u>	<u>3,318,674</u>

Capital asset activities for the year ended August 31, 2020, were as follows for HPMF:

	<u>2019</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2020</u>
Capital assets:				
Land	\$ 14,100	-	-	14,100
Program costs	652,089	-	-	652,089
Furniture and equipment	424,249	-	-	424,249
Other assets	4,050	-	-	4,050
Accounting software – FM	55,105	-	-	55,105
Accounting software – TV	55,105	-	-	55,105
Total capital assets	1,204,698	-	-	1,204,698
Less accumulated depreciation	1,190,598	-	-	1,190,598
Net capital assets	<u>\$ 14,100</u>	<u>-</u>	<u>-</u>	<u>14,100</u>

Capital asset activities for the year ended August 31, 2019, were as follows for the Stations:

	<u>2018</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2019</u>
Capital assets:				
Buildings and building improvements	\$ 12,706,461	-	-	12,706,461
Furniture and equipment	8,861,401	22,216	319,166	8,564,451
Vehicles	53,295	-	53,295	-
Intangible and other assets	75,000	-	-	75,000
Total capital assets	21,696,157	22,216	372,461	21,345,912
Less accumulated depreciation	16,770,542	977,666	372,461	17,375,747
Net capital assets	<u>\$ 4,925,615</u>	<u>(955,450)</u>	<u>-</u>	<u>3,970,165</u>

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Capital asset activities for the year ended August 31, 2019, were as follows for HPMF:

	<u>2018</u>	<u>Additions</u>	<u>Dispositions</u>	<u>2019</u>
Capital assets:				
Land	\$ 14,100	-	-	14,100
Program costs	652,089	-	-	652,089
Furniture and equipment	424,249	-	-	424,249
Other assets	4,050	-	-	4,050
Accounting software – FM	55,105	-	-	55,105
Accounting software – TV	55,105	-	-	55,105
Total capital assets	1,204,698	-	-	1,204,698
Less accumulated depreciation	1,190,598	-	-	1,190,598
Net capital assets	\$ 14,100	-	-	14,100

(6) Investments Restricted for Endowment and Programs

The Stations' investments restricted for endowment are placed in the Endowment Fund, which is a pooled investment of individual endowments. HPMF has investments restricted for endowment and investments restricted for programs in an external investment pool held with the U of H Foundation. None of the external investment pools are publicly registered and the investments may only be redeemed by action of the Board of Directors. The Endowment Fund attempts to preserve the real (inflation adjusted) purchasing power of endowment assets, when measured over rolling periods of at least five years, and to outperform the capital markets in which the endowment assets are invested, measured over rolling periods of three to five years. The U of H Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. The U of H Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Stations' and HPMF's investments are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In accordance with GASB No. 72, *Fair Value Measurement and Application*, for investments in pooled funds, the fair value is determined as the number of units or shares held in the fund multiplied by the price per unit or shares as publicly quoted. Investments restricted for endowment in which a public market does not exist are based on the Stations' and HPMF's ownership interest in the net asset value (NAV) of each fund as reported by the fund managers. Investments are reported at NAV and are not categorized according to fair value.

The Stations had the following recurring fair value measurements as of August 31, 2020 and 2019:

- Pooled investments of \$1,783,015 and \$1,659,073, respectively, are valued at fair value per share of the pool's underlying portfolio.

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Notes to Basic Financial Statements

August 31, 2020 and 2019

HPMF had the following recurring fair value measurements as of August 31, 2020 and 2019:

- Pooled investments of \$1,672,247 and \$1,678,894, respectively, are valued at fair value per share of the pool's underlying portfolio.

(7) Film Rights

KUHT pays for the right to use certain films in its broadcasting activities. The costs of those rights are amortized over the purchased periods. Changes in the costs of film rights for the years ended August 31, 2020 and 2019, were as follows:

Balance, September 1, 2018	\$	58,095
FY19 additions		88,949
FY19 amortization		<u>(54,877)</u>
Balance, August 31, 2019		92,167
FY20 additions		117,695
FY20 amortization		<u>(110,092)</u>
Balance, August 31, 2020	\$	<u><u>99,770</u></u>

(8) Unrestricted Net Deficit

In prior years and in the current year, the Stations experienced a net excess of expenses over revenues, resulting in an increasing net deficit of unrestricted net position. The net deficit of unrestricted net position at August 31, 2020 and 2019, was \$10,678,244 and \$7,984,244, respectively. The deficit resulted mainly due to operating expenses exceeding operating revenues over several years.

(9) General Support from the UH System

General support from the UH System includes building and related occupancy costs donated by the UH System and is recorded in operating revenues and expenses. The occupancy costs are determined based on the net book value of the building and tower, as well as the square footage of the building and tower utilized by the Stations. Occupancy cost was \$325,429 in fiscal years 2020 and 2019. The UH System also provides indirect administrative support and maintenance support to the Stations, which are recorded in operating revenues and expenses based on the UH System's allocation methods. Indirect administrative support amounted to \$3,209,183 and \$3,027,418 in fiscal years 2020 and 2019, respectively.

(10) Corporation for Public Broadcasting Grants

CPB is a private, nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSG) to qualifying public broadcasting entities. CSGs are used to augment the financial resources of public broadcasting entities and

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thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two federal fiscal years as described in the *Communications Act*, 47 United States Code Annotated, Section 396(k)(7). In any event, each grant must be expended within two years of the initial grant authorization.

According to the *Communications Act*, CSG funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

Certain general provisions must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These general provisions pertain to the use of grant funds recordkeeping, audits, financial reporting, mailing lists and licensee status with the Federal Communications Commission.

(11) Pension Plans, Optional Retirement Program and Other Postemployment Benefits Plan

The State has joint contributory retirement plans for substantially all of its employees. The Stations participate in the plans administered by the Teacher Retirement System of Texas (the Retirement System). Future pension costs are the liabilities of the Retirement System. The Retirement System does not account for each State agency separately. Annual financial reports prepared by the Retirement System include audited financial statements and actuarial assumptions and conclusions.

The State has also established an Optional Retirement Program (ORP) for institutions of higher education. Participation in the ORP is available to certain eligible employees and is in lieu of participation in the Teacher Retirement System (TRS).

The State has three retirement systems in its financial reporting entity – Employees Retirement System (ERS), TRS and Texas Emergency Services Retirement System (TESRS). These three retirement systems administer the following six defined benefit pension plans:

- ERS – the Employees Retirement System of Texas Plan (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), the Judicial Retirement System of Texas Plan One (JRS1) and Judicial Retirement System of Texas Plan Two (JRS2)
- TRS – the Teacher Retirement System of Texas (TRS) plan
- TESRS – the Texas Emergency Services Retirement System (TESRS) plan

The ERS, LECOS, JRS2, TRS and TESRS plans are administered through trust; the JRS1 plan is on a pay-as-you-go basis. The Stations only participate in the TRS plan and the ORP.

TRS Plan

The Retirement System is the administrator of the TRS plan, a cost-sharing multiple-employer defined benefit pension plan, with a special funding situation for certain employers. No on-behalf payments were made by the State for the Stations.

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The employers of the TRS plan include the State, TRS, the State's public schools, education service centers, charter schools, and community and junior colleges. All employees of public, state-supported education institutions in Texas who are employed for one-half or more of the standard work load and not exempted from membership under Texas Government Code, Title 8, Section 822.002, are covered by the system. Employees of TRS and State colleges, universities and medical schools are members of the TRS plan.

The TRS plan provides retirement, disability annuities, and death and survivor benefits. The benefit and contribution provisions of the TRS plan are authorized by State law and may be amended by the Legislature. The pension benefit formulas are based on members' average annual compensation and years of service credit. The standard annuity is 2.3% of the average of the five highest annual salaries multiplied by years of service credit. For grandfathered members who were hired on or before August 31, 2005, and meet certain criteria, the standard annuity is based on the average of the three highest annual salaries. The plan does not provide automatic cost of living adjustments (COLA).

The audited Comprehensive Annual Financial Report (CAFR) for TRS may be obtained from:

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698
<http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>

For the years ended August 31, 2020 and 2019, the Stations' contributions to the TRS plan were \$443,854 and \$393,159, respectively. The contribution rates for the employers and the members are presented in the table below:

Required Contribution Rates	Year Ended August 31, 2020	Year Ended August 31, 2019
Employer (the Stations)	6.80%	6.80%
Members	7.70%	7.70%

The total pension liability is determined by annual actuarial valuations. The table on the following page presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2019 and 2018, measurement dates.

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Actuarial Methods and Assumptions

	<u>2019</u>	<u>2018</u>
Actuarial Valuation Date	August 31, 2018, rolled forward to August 31, 2019	August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal	Individual Entry Age Normal
Amortization Method	Level Percent of Payroll, Floating Market Value	Level Percent of Payroll, Floating Market Value
Actuarial Assumptions:		
Discount Rate	7.25%	6.91%
Investment Rate of Return	7.25%	8.00%
Long-term Expected Rate of Return	7.25%	7.25%
Municipal Bond Rate	2.63%	3.69%
Inflation	2.30%	2.30%
Salary Increase, Including Inflation	3.05% to 9.05%	3.05% to 9.05%
Mortality:		
Active	90% of the RP-2014 Employee Mortality for males and females with full generational mortality	90% of the RP-2014 Employee Mortality for males and females with full generational projection using Scale BB
Postretirement	2018 TRS Healthy Pensioner Mortality Tables with full generation projection using Scale U-MP	2018 TRS of Texas Healthy Pensioner Mortality Tables with full generation projection using Scale BB
Ad Hoc Postemployment Benefit Changes	None	None

The actuarial assumptions used in the 2019 and 2018 actuarial valuations were primarily based on the results of an actuarial experience study for the three-year period ended August 31, 2017, and adopted in July 2018.

There have been no changes to the benefit provisions of the plan since the prior measurement date.

The discount rate used to measure the total pension liability was 7.25% and 6.91% for the years ended August 31, 2020 and 2019, respectively. The projected cash flows into and out of the pension plan assumed that active members, employers and the non-employer contributing entity make their contributions at the statutorily required rates. It is assumed that future employer and state contributions will be 8.50% of payroll in fiscal year 2020 gradually increasing to 9.55% over the next several years.

This includes a factor for all employer and state contributions for active and rehired retirees. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

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The long-term expected rate of return on plan investments was developed using a building-block method with assumptions, including asset class of investment portfolio, target allocation, real rate of return on investments and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of geometric real rates of return for each major asset class for the plan's investment portfolio for the measurement period ended August 31, 2019, are presented below:

Asset Class	Target Allocation	Long-term Expected Geometric Real Rate of Return
<i>Global Equity</i>		
U.S. Treasury	18%	6.4%
Non-U.S. Developed	13%	6.3%
Emerging Markets	9%	7.3%
Private Equity	14%	8.4%
<i>Stable Value</i>		
U.S. Treasury	16%	3.1%
Stable Value Hedge Funds	5%	4.5%
<i>Real Return</i>		
Real Assets	15%	8.5%
Energy and Natural Resources and infrastructure	6%	7.3%
<i>Risk Parity</i>		
Risk Parity	8%	5.8/6.5%
Asset Allocation Leverage		
Cash	2%	2.5%
Asset Allocation Leverage	-6%	2.7%
Total	100%	

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of the Stations' net pension liability as of August 31, 2020 and 2019. The result of the analysis is presented in the tables that follow:

**Sensitivity of the Stations' Proportionate Share of the
Net Pension Liability to Changes in the Discount Rate**

Year	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
2020	\$ 10,132,918	\$ 6,448,647	\$ 3,723,239

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**Sensitivity of the Stations' Proportionate Share of the
Net Pension Liability to Changes in the Discount Rate**

Year	1% Decrease (5.91%)	Current Discount Rate (6.91%)	1% Increase (7.91%)
2019	\$ 12,658,651	\$ 8,051,020	\$ 4,929,633

The pension plan's fiduciary net position is determined using the economic resources measurement focus and the accrual basis of accounting, which is the same basis used by TRS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. The framework for measuring fair value is based on a hierarchy that gives the highest priority to the use of observable inputs in an active market and lowest priority to the use of unobservable inputs. More detailed information on the plan's investment policy, assets and fiduciary net position may be obtained from TRS' fiscal 2019 and 2018 CAFRs.

At August 31, 2020 and 2019, the Stations reported a liability of \$6,448,647 and \$8,051,020, respectively, for their proportionate share of the collective net pension liability. The collective net pension liability at August 31, 2020, was measured as of August 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Stations' proportion at August 31, 2019, was 0.0126811%, which was a decrease from the 0.0152381% measured at the prior measurement date. The Stations' proportion of the collective net pension liability at August 31, 2020, was based on their contributions to the pension plan relative to the contributions of all the employers and the non employer-contributing entity to the plan for the period September 1, 2018 through August 31, 2019.

The collective net pension liability at August 31, 2019, was measured as of August 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Stations' proportion at August 31, 2018, was 0.0152381%, which was an increase from the 0.0116575% measured at the prior measurement date. The Stations' proportion of the collective net pension liability at August 31, 2019, was based on their contributions to the pension plan relative to the contributions of all the employers and the nonemployer-contributing entity to the plan for the period September 1, 2017 through August 31, 2018.

For the years ended August 31, 2020 and 2019, the Stations recognized pension expense of \$1,329,673 and \$1,063,178, respectively. At August 31, 2020, the Stations reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

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	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 27,692	228,886
Changes of assumptions	2,045,173	845,162
Net difference between projected and actual investment return	66,088	-
Change in proportion and contribution difference	1,233,446	882,017
Contributions subsequent to the measurement date	436,500	-
Total	\$ 3,808,899	1,956,065

At August 31, 2019, the Stations reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 52,280	205,795
Changes of assumptions	3,024,074	94,502
Net difference between projected and actual investment return	-	159,146
Change in proportion and contribution difference	1,534,329	255,762
Contributions subsequent to the measurement date	393,159	-
Total	\$ 5,003,842	715,205

The \$436,500 and \$393,159 reported as deferred outflows of resources at August 31, 2020 and 2019, respectively, resulting from contributions subsequent to the measurement date will be recognized as a reduction in net pension liability for the years ending August 31, 2021 and 2020, respectively.

Other amounts reported as deferred outflows and inflows of resources related to pensions at August 31, 2020, will be recognized in pension expense in the following years:

Year Ending August 31:			
2021	\$	259,072	
2022		202,467	
2023		461,252	
2024		451,724	
2025		150,215	
Thereafter		(108,396)	
	\$	1,416,334	

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ERS Plan – Other Postemployment Benefits Plan

Employees Retirement System is the administrator of the State Retiree Health Plan (SRHP), a cost-sharing, multiple-employer defined benefit OPEB plan with a special funding situation. The special funding situation pertains to certain junior colleges, which does not include the Stations.

The 61 employers of SRHP include State of Texas agencies and universities, community and junior colleges, and other entities specified by the Legislature. Benefits are provided to retirees through the Texas Employees Group Benefits Program as authorized by Texas Insurance Code, Chapter 1551.

The SRHP provides postemployment health care, life and dental insurance benefits to retirees. The benefit and contribution provisions of the SRHP are authorized by state law and may be amended by the Legislature. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. Surviving spouses and dependents of retirees are also covered by the plan. The plan does not provide automatic cost of living adjustments (COLAs).

The audited Comprehensive Annual Financial Report (CAFR) for Employees Retirement System may be obtained from:

Employees Retirement System of Texas
200 E. 18th Street
Austin, Texas 78701

For the years ended August 31, 2020 and 2019, the Stations' contributions to the ERS plan were \$744,331 and \$753,684, respectively. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive an employer contribution. The contribution requirements for the employers in the measurement periods are presented in the following table:

<u>Required Employer Contribution Amounts</u>	<u>Year Ended August 31, 2020</u>	<u>Year Ended August 31, 2019</u>
Retiree Only	\$ 624.82	\$ 621.90
Retiree & Spouse	1,340.82	1,334.54
Retiree & Children	1,104.22	1,099.06
Retiree & Family	1,820.22	1,811.70

Actuarial assumptions:

The total OPEB liability is determined by annual actuarial valuations. The table below presents the actuarial methods and assumptions used to measure the total OPEB liability as of the August 31, 2019 and 2018, measurement dates.

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Actuarial Methods and Assumptions

	2019	2018
Actuarial Valuation Date	August 31, 2019	August 31, 2018
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent of Payroll, Open	Level Percent of Payroll, Open
Remaining Amortization Period	30 Years	30 Years
Actuarial Assumptions:		
Discount Rate	2.97%	3.96%
Inflation	2.50%	2.50%
Salary Increase, Including Inflation	2.50% to 9.50%	2.50% to 9.50%
Healthcare Cost and Trend Rate	7.30% for FY 2021, 7.40% for FY2022, 7.00% for FY2023, decreasing 0.50% per year to 4.50% for FY2028 and later years	7.30% for FY 2020, 7.40% for FY2021, 7.00% for FY2022, decreasing 0.50% per year to 4.50% for FY2027 and later years
Aggregate Payroll Growth	3.00%	3.00%
Retirement Age	Experience-based tables of rates that are specific to the class of employee	Experience-based tables of rates that are specific to the class of employee
Mortality:		
State Agency Members		
Service Retirees, Survivors and Other Inactive Members	2017 State Retirees of Texas Mortality table with a 1-year set forward for male CPO/CO members and Ultimate MP Projection Scale projected from the year 2017	2017 State Retirees of Texas Mortality table with a 1-year set forward for male CPO/CO members and Ultimate MP Projection Scale projected from the year 2017
Disability Retirees	RP-2014 Disabled Retiree Mortality with Ultimate MP Projection Scale projected from year 2014	RP-2014 Disabled Retiree Mortality with Ultimate MP Projection Scale projected from year 2014
Active Members	RP-2014 Active Member Mortality with Ultimate MP Projection Scale projected from year 2014	RP-2014 Active Member Mortality with Ultimate MP Projection Scale projected from year 2014
Higher Education Members		
Service Retirees, Survivors and Other Inactive Members	Tables based on TRS experience with full generational projection using Scale BB from Base Year 2018	Tables based on TRS experience with full generational projection using Scale BB from Base Year 2018
Disability Retirees	Tables based on TRS experience with full generational projection using Scale BB from Base Year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members	Tables based on TRS experience with full generational projection using Scale BB from Base Year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members
Active Members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014
Ad Hoc Postemployment Benefit Changes	None	None

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Many of the actuarial assumptions used in the valuation were primarily based on the results of actuarial experience studies performed by the ERS and TRS retirement plan actuaries for the period September 1, 2011 to August 31, 2016, for state agency members and for the period September 1, 2010 to August 31, 2017, for higher education members. The mortality rates were based on the tables identified in the table in the previous page titled *Actuarial Methods and Assumptions*.

The following assumptions and other inputs have been adopted since the prior valuation to reflect plan experience and trends as expected by ERS and the actuaries attesting to the results of the valuation:

- a) Assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost, Retiree Contribution and expense trends have been updated to reflect recent experience and its effects on our short-term expectations;
- b) Percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence;
- c) Percentage of future male retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends;
- d) Percentage of future retirees and their spouses assumed to use tobacco have been updated to reflect recent plan experience and expected trends; and,
- e) Discount rate assumption was decreased from 3.96% to 2.97% to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

The only benefit revisions that have been adopted since the prior valuation for retirees and dependents for whom Medicare is not primary is an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect plans.

The discount rate that was used to measure the total OPEB liability is the municipal bond rate of 2.97% as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 3.96%. The source of the municipal bond rate was the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. Projected cash flows into the plan are equal to projected benefit payments out of the plan. As the plan operates essentially on a pay as you go basis and is not intended to accumulate assets, there is no long-term expected rate of return. ERS' Board of Trustees adopted an amendment to the investment policy in August 2017 to require that all funds in this plan be invested in short-term fixed income securities and specify that the expected rate of return on these investments be at least 2.4%. The investment rate of return used to calculate the projected earnings on OPEB plan investments was 3.96%.

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of the Station's net OPEB liability as of August 31, 2020 and 2019. The result of the analysis is presented in the tables on the following page.

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**Sensitivity of the Stations' Proportionate Share of the
Net OPEB Liability to Changes in the Discount Rate**

Year	1% Decrease (1.97%)	Current Discount Rate (2.97%)	1% Increase (3.97%)
2020	\$ 10,573,291	\$ 8,860,465	\$ 7,542,508

**Sensitivity of the Stations' Proportionate Share of the
Net OPEB Liability to Changes in the Discount Rate**

Year	1% Decrease (2.96%)	Current Discount Rate (3.96%)	1% Increase (4.96%)
2019	\$ 8,507,498	\$ 7,741,522	\$ 6,150,324

Sensitivity analysis was performed on the impact of changes in the healthcare cost trend rates on the proportionate share of the Station's net OPEB liability. The result of the analysis is presented in the table below:

**Sensitivity of the Stations' Proportionate Share of the
Net OPEB Liability to Changes in the Healthcare Trend Rates**

1% Decrease HS/HSMA: 6.3/9.8 % decreasing to 3.5%;	Current Healthcare Cost Trend Rates HS/HSMA: 7.3/10.8 % decreasing to 4.5%)	1% Increase HS/HSMA: 8.3/11.8 % decreasing to 5.5%)
\$ 7,202,443	\$ 8,860,465	\$ 10,374,362

The OPEB plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by ERS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the Other Employee Benefit Trust Fund are reported at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. More detailed information on the plan's investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS' fiscal 2019 and 2018 CAFRs.

At August 31, 2020 and 2019, the Stations reported a liability of \$8,860,465 and \$7,741,522, respectively, for their proportionate share of the collective net OPEB liability. The collective net OPEB liability at August 31, 2020, was measured as of August 31, 2019, and the total OPEB liability used to calculate the

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net OPEB liability was determined by an actuarial valuation as of that date. The Stations' proportion at August 31, 2019, was 0.0248172%, which was an increase from the 0.0241780% measured at the prior measurement date. The Stations' proportion of the collective net OPEB liability at August 31, 2020, was based on their contributions to the OPEB plan relative to the contributions of all the employers and the nonemployer-contributing entity to the plan for the period September 1, 2018 through August 31, 2019. The collective net OPEB liability at August 31, 2018, was measured as of August 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Stations' proportion at August 31, 2018, was 0.0241780%, which was an increase from the 0.0060066% measured at the prior measurement date. The Stations' proportion of the collective net OPEB liability at August 31, 2019, was based on their contributions to the OPEB plan relative to the contributions of all the employers and the nonemployer-contributing entity to the plan for the period September 1, 2017 through August 31, 2018.

For the years ended August 31, 2020 and 2019, the Stations recognized OPEB expense of \$1,491,732 and \$1,421,365, respectively. At August 31, 2020, the Stations reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ -	223,194
Changes of assumptions	610,414	1,930,730
Net difference between projected and actual investment return	3,526	-
Effect of change in proportion and contribution difference	5,215,615	187,883
Contributions subsequent to the measurement date	40,071	-
Total	\$ 5,869,626	2,341,807

At August 31, 2019, the Stations reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ -	262,533
Changes of assumptions	-	2,638,389
Net difference between projected and actual investment return	3,393	-
Effect of change in proportion and contribution difference	6,740,233	-
Contributions subsequent to the measurement date	17,466	-
Total	\$ 6,761,092	2,900,922

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The \$40,071 and 17,466 reported as deferred outflows of resources at August 31, 2020 and 2019, respectively, resulting from contributions subsequent to the measurement date will be recognized as a reduction in net OPEB liability for the years ending August 31, 2021 and 2020, respectively.

Other amounts reported as deferred outflows and inflows of resources related to pensions at August 31, 2020, will be recognized in pension expense in the following years:

<u>Year Ending August 31:</u>		
2021	\$	822,860
2022		822,860
2023		1,040,343
2024		760,127
2025		41,558
	\$	3,487,748

Optional Retirement Program

The State of Texas has also established an Optional Retirement Program (the ORP) for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS. The ORP is an individualized defined contribution plan which provides for the purchase of annuity or mutual fund contracts.

For employees participating prior to September 1, 1995, the contributions to the ORP by the Stations and by each participant during fiscal year 2009 were 8.50% of the participants' annual compensation. For employees hired on September 1, 1995, or later, the percentages of the Stations' and participants' contributions were 6% of the participants' annual compensation. The percentages are established by the Texas Legislature and may fluctuate over time. Employee contribution rates for 2020 and 2019 are 6.65% for ORP participants. The State contribution rate for the ORP is 6.6% for 2020 and 2019. Contributions to the plan by the Stations and employee contributions were not material for 2020 and 2019. Since these are individual investment product contracts, the State has no additional or unfunded liability for the ORP. These contributions represent 100% of the required contribution.

(12) Leases

The Stations have entered into operating leases for various business purposes, including a tower antenna; fundraising software; utility van; fax and copy machine and KUHT server; web host connection in support of their operations; transmitting facility; and other equipment. The Stations have short- and long-term operating leases. During the years ended August 31, 2020 and 2019, lease expense was \$609,939 and \$431,125, respectively.

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Future minimum lease payments under noncancellable operating lease agreements are as follows:

<u>Year Ending August 31:</u>	
2021	\$ 198,151
2022	203,381
2023	208,768
2024	208,364
2025	196,219
2026 - 2030	1,073,005
2031 - 2035	1,243,906
2036 - 2039	<u>1,035,920</u>
	<u>\$ 4,367,714</u>

(13) Transactions Between Primary Institution and Component Unit

Cash expenditures made by HPMF on behalf of the Stations, such as expenditures associated primarily with fundraising for the Stations and production of the Stations' local programs, are recorded as revenues and expenses for the Stations. Such cash expenditures for the fiscal years ended August 31, 2020 and 2019, amounted to \$2,861,782 and \$2,624,104, respectively, and have been included in the contributions, special events and production service revenues and in operating expenses in the accompanying statements of revenues, expenses and changes in net position.

(14) Income Taxes

The UH System, of which the Stations are a division, is a university established as an agency of the State of Texas prior to 1969, and is qualified as a governmental entity not generally subject to federal income tax by reason of being a state or political subdivision thereof, or an integral part of a state or political subdivision thereof or an entity whose income is excluded from gross income for federal income tax purposes under Section 115 of the Internal Revenue Code of 1986 (IRC). However, as a state college or university, the UH System is subject to unrelated business income pursuant to IRC Section 511(a)(2)(B). No material unrelated business income tax was incurred for the years ended August 31, 2020 and 2019. HPMF, whose purpose is to raise money for the Stations, is exempt from income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3). No material unrelated business income tax was incurred by HPMF for the years ended August 31, 2020 and 2019. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

(15) Risk Management

The Stations and HPMF are exposed to various risks of loss related to torts, injuries to employees and natural disasters. The UH System and HPMF carry commercial insurance to cover losses to which they may be exposed.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Notes to Basic Financial Statements

August 31, 2020 and 2019

(16) Long-term Liabilities

The changes in long-term liabilities for the Stations for the year ended August 31, 2020, were as follows:

<u>Business-type Activities</u>	<u>Balance, August 31, 2019</u>	<u>Decreases</u>	<u>Balance, August 31, 2020</u>	<u>Amounts Due in One Year</u>
Notes payable:				
HPM Chiller replacement	\$ 16,141	16,141	-	-

The changes in long-term liabilities for the Stations for the year ended August 31, 2019, were as follows:

<u>Business-type Activities</u>	<u>Balances, August 31, 2019</u>	<u>Decreases</u>	<u>Balances, August 31, 2020</u>	<u>Amounts Due in One Year</u>
Notes payable:				
HPM Chiller replacement	\$ 96,526	80,385	16,141	16,141

The HPM Chiller was purchased by the UH System for the Stations. The note is unsecured and bears interest at 2.31% payable monthly. The Stations paid off the note remaining balance of \$16,141 in the year ended August 31, 2020.

(17) Future Change in Accounting Principle

GASB recently issued its Statement No. 87 (GASB No. 87), *Leases*. The Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Stations expects to first apply GASB No. 87 during the year ending August 31, 2022, using a prospective recognition method. The impact of applying the Statement has not been determined.

REQUIRED SUPPLEMENTARY INFORMATION

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Schedule of Houston Public Media's Proportionate Share of the Net Pension Liability
Teacher Retirement System of Texas
Year Ended August 31,

	2020	2019	2018	2017	2016	2015
Houston Public Media's Proportion of the Net Pension Liability	0.0126811%	0.0152381%	0.0116575%	0.0097372%	0.0098429%	0.0111260%
Houston Public Media's Proportionate Share of the Net Pension Liability	\$ 6,448,647	8,051,020	2,887,317	3,788,573	3,487,671	2,972,528
Houston Public Media's Covered Payroll	\$ 5,149,204	4,981,187	3,631,247	3,967,210	3,784,423	4,078,174
Houston Public Media's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	125.24%	161.63%	79.51%	92.75%	92.16%	72.89%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.24%	73.74%	82.17%	78.00%	78.43%	83.25%

This schedule is intended to present 10 years of information. Currently, only six years of information is available. Information for future years will be added as it becomes available.

For 2019, there was a change with respect to actuarial assumptions from the prior year to reflect revised expectations with respect to salaries. Additionally, there were changes to the following actuarial assumptions in the current and prior years:

- For 2018, the total pension liability as of Aug. 31, 2018, was developed using a roll forward method from the August 31, 2017, valuation.
- From 2017 to 2018, demographic assumptions including postretirement mortality, termination rates and rates of retirement were updated.
- From 2017 to 2018, the discount rate used in the determination of the total pension liability changed from 8.000% to 6.907% and from 2018 to 2019 changed from 6.907% to the long term rate of return of 7.25%.
- From 2017 to 2018, the long-term assumed rate of return changed from 8.00% to 7.25%.
- From 2014 to 2015, the inflation assumption changed from 3.00% to 2.50%.
- From 2014 to 2015, the salary increase assumption changed from a range of 4.25% to 7.25% to a range of 3.50% to 9.50% including inflation and from 2017 to 2018, the salary increase assumption changed from a range of 3.50% to 9.50% including inflation to a range of 3.05% to 9.05% including inflation.
- From 2014 to 2015, the mortality assumption changed from the one based on 1994 Group Annuity Mortality Table to the one based on the RP 2014 employee Mortality Tables for the active members. For the retired members, the new 2015 TRS Healthy Pensioner Mortality Tables were used for the mortality assumption.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)
Schedule of Houston Public Media's Contributions for Pension
Teacher Retirement System of Texas
Year Ended August 31,

Contributions	2020	2019	2018	2017	2016	2015	2014
Statutorily Required Contributions	\$ 436,500	393,159	348,079	279,606	263,636	300,321	282,076
Contributions in Relation to the Statutorily Required Contributions	\$ 436,500	393,159	348,079	279,606	263,636	300,321	282,076
Contribution Deficiency (Excess)	\$ -	-	-	-	-	-	-
Houston Public Media's Covered Payroll	\$ 5,765,386	5,149,204	4,981,187	3,631,247	3,303,303	3,784,423	4,078,174
Contributions as a Percentage of Covered Payroll	7.57%	7.64%	6.99%	7.70%	7.98%	7.94%	6.92%

This schedule is intended to present 10 years of information. Currently, only seven years of information is available. Information for future years will be added as it becomes available.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Schedule of Houston Public Media's Proportionate Share of the Net OPEB Liability
Employees Retirement System of Texas

Year Ended August 31,

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Houston Public Media's Proportion of the Net OPEB Liability	0.02481721%	0.02417803%	0.00600658%
Houston Public Media's Proportionate Share of the Net OPEB Liability	\$ 8,860,465	7,741,522	2,046,620
Houston Public Media's Covered-Employee Payroll	\$ 2,978,740	5,206,072	6,159,708
Houston Public Media's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	297.46%	148.70%	33.23%
Plan Fiduciary Net Position as a Percentage of the OPEB	1.27%	1.27%	2.04%

This schedule is intended to present 10 years of information. Currently, only three years of information is available. Information for future years will be added as it becomes available.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Schedule of Houston Public Media's Proportionate Share of the Net OPEB Liability (Continued)

Employees Retirement System of Texas

Year Ended August 31,

In 2019, the following assumptions and other inputs have been adopted since the prior valuation to reflect plan experience and trends.

- Assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost, Retiree Contribution and expense trends have been updated to reflect recent experience and its effects on our short-term expectations;
- Percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence;
- Percentage of future male retirees assumed to be married and electing coverage for their spouse have been updated;
- Percentage of future retirees and their spouses assumed to use tobacco have been updated
- The discount rate assumption decreased from 3.96% to 2.97%.

In 2018, the following assumptions and other inputs have been adopted since the prior valuation to reflect plan experience and trends:

- Demographic assumptions (including rates of retirement, disability, termination, mortality, and assumed salary increases) for higher education members have been updated;
- Assumed expenses, assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost, Retiree Contribution and expense trends have been updated to reflect recent experience and its effects on our short-term expectations;
- Percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence;
- Percentage of future retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends;
- The discount rate assumption increased from 3.51% to 3.96%

Changes in Benefits:

The benefit revisions that were adopted since the 2017 valuation for retirees and dependents for whom Medicare is not primary is an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect plans.

HOUSTON PUBLIC MEDIA

(A Division of the University of Houston System)

Schedule of Houston Public Media's Proportionate Share of the Net OPEB Liability (Continued)

Employees Retirement System of Texas

Year Ended August 31,

The following benefit revisions have been adopted since the 2016 valuation for retirees and dependents for whom Medicare is not primary:

- Increase in the out-of-pocket cost applicable to services obtained at a free standing emergency facility,
- Elimination of the copayment for virtual visits,
- Copay reduction for Airrosti and for out of state participants and
- Elimination of the deductible for in-network services and application of a copayment rather than coinsurance to certain services like primary care and specialist visits.

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)

Schedule of Houston Public Media's Contributions for Other Postemployment Benefits
Employees Retirement System of Texas

Year Ended August 31,

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily Required Contributions	\$ 40,071	17,466	20,736	807,216
Contributions in Relation to the Statutorily Required Contributions	\$ 40,071	17,466	20,736	807,216
Contribution Deficiency (Excess)	\$ -	-	-	-
Houston Public Media's Covered-Employee Payroll	\$ 3,162,359	2,978,740	5,206,072	6,159,708
Contributions as a Percentage of Covered-Employee Payroll	1.27%	0.59%	0.40%	13.10%

SUPPLEMENTARY INFORMATION

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)
Primary Institution Schedule of Functional Expenses
Year Ended August 31, 2020

Schedule 1

Class	Programming and production (PRD)	Broadcasting, engineering and technical (BET)	Program information (PGM)	Total	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Total	Grand total
Salaries and wages	\$ 3,289,557	753,823	-	4,043,380	212,226	1,223,330	-	1,435,556	5,478,936
Fringe benefits	944,515	205,361	-	1,149,876	65,217	2,621,489	-	2,686,706	3,836,582
Financial and legal services	106	21,388	-	21,494	-	275,158	-	275,158	296,652
Fundraising	13,707	5,775	-	19,482	479,933	141,222	240	621,395	640,877
Membership fees	32,205	1,131	-	33,336	4,215	24,792	-	29,007	62,343
Other expenses	160,981	1,582,717	-	1,743,698	591,871	1,237,033	1,015,687	2,844,591	4,588,289
Mail services	61	5,765	4	5,830	118,670	27,519	330	146,519	152,349
Printing and reproduction services	25	-	-	25	101,664	16,813	-	118,477	118,502
Professional services	95,248	2,800	-	98,048	71,933	182,257	-	254,190	352,238
Program rights	4,274,450	110,649	-	4,385,099	-	57,366	-	57,366	4,442,465
Rental and leases	4,080	563,106	-	567,186	3,940	38,813	-	42,753	609,939
Repairs and maintenance	47,923	161,069	-	208,992	-	34,857	-	34,857	243,849
Supplies and materials	55,176	503,388	276	558,840	87,203	1,557,395	1,438	1,646,036	2,204,876
Telephone	-	37,369	-	37,369	-	450	-	450	37,819
Travel	10,327	6,682	-	17,009	1,595	11,555	576	13,726	30,735
Utilities	-	282,578	-	282,578	-	-	-	-	282,578
Broadcasting fees	150	-	-	150	-	-	-	-	150
	8,928,511	4,243,601	280	13,172,392	1,738,467	7,450,049	1,018,271	10,206,787	23,379,179
In-kind	-	325,429	-	325,429	-	3,209,183	-	3,209,183	3,534,612
	\$ 8,928,511	4,569,030	280	13,497,821	1,738,467	10,659,232	1,018,271	13,415,970	26,913,791
Percentage of total expenses before depreciation	33%	17%	—%	50%	6%	41%	4%	50%	100%

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)
Component Unit (HPMF) Schedule of Functional Expenses
Year Ended August 31, 2020

Schedule 2

Class	Grants to Primary	Programming and production (PRD)	Broadcasting, engineering and technical (BET)	Total	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Total	Grand Total
Financial and legal services	\$ -	-	-	-	-	127,259	-	127,259	127,259
Fundraising	-	-	-	-	488,228	141,143	240	629,611	629,611
Grants to KUHF-FM	6,849,141	-	-	6,849,141	-	-	-	-	6,849,141
Grants to KUHT-TV	6,849,141	-	-	6,849,141	-	-	-	-	6,849,141
Membership fees	-	160	-	160	4,215	77	-	4,292	4,452
Other expenses	-	72,763	6,366	79,129	606,484	107,615	1,069,373	1,783,472	1,862,601
Mail services	-	-	-	-	112,234	-	330	112,564	112,564
Printing and reproduction services	-	-	-	-	100,739	16,223	-	116,962	116,962
Professional services	-	2,800	2,800	5,600	71,933	3,790	-	75,723	81,323
Rental and leases	-	-	-	-	2,816	150	-	2,966	2,966
Repairs and maintenance	-	925	925	1,850	-	677	-	677	2,527
Supplies and materials	-	-	-	-	86,814	3,030	1,082	90,926	90,926
Travel	-	-	-	-	336	1,019	-	1,355	1,355
	<u>\$ 13,698,282</u>	<u>76,648</u>	<u>10,091</u>	<u>13,785,021</u>	<u>1,473,799</u>	<u>400,983</u>	<u>1,071,025</u>	<u>2,945,807</u>	<u>16,730,828</u>

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)
Primary Institution Schedule of Functional Expenses
Year Ended August 31, 2019

Schedule 3

Class	Programming and production (PRD)	Broadcasting, engineering and technical (BET)	Program information (PGM)	Total	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Total	Grand Total
Salaries and wages	\$ 3,111,738	922,958	-	4,034,696	281,225	1,097,896	-	1,379,121	5,413,817
Fringe benefits	916,447	256,336	-	1,172,783	85,594	2,214,533	-	2,300,127	3,472,910
Financial and legal services	-	23,928	-	23,928	332	270,888	-	271,220	295,148
Fundraising	17,707	5,001	-	22,708	410,922	12,787	-	423,709	446,417
Membership fees	30,187	1,042	-	31,229	1,140	37,231	-	38,371	69,600
Other expenses	334,150	238,922	3,969	577,041	1,341,623	1,247,770	316,946	2,906,339	3,483,380
Mail services	1,118	1,676	67	2,861	169,621	3,286	113	173,020	175,881
Printing and reproduction services	431	-	250	681	89,894	6,602	-	96,496	97,177
Professional services	62,087	-	-	62,087	122,463	173,649	-	296,112	358,199
Program rights	3,946,875	92,436	-	4,039,311	-	54,120	-	54,120	4,093,431
Rental and leases	109,962	295,864	-	405,826	1,482	23,817	-	25,299	431,125
Repairs and maintenance	26,719	182,072	-	208,791	-	84,108	-	84,108	292,899
Supplies and materials	31,881	66,716	681	99,278	163,744	596,525	194	760,463	859,741
Telephone	-	192,746	-	192,746	15	1,220	-	1,235	193,981
Travel	29,941	5,598	-	35,539	9,227	20,390	2,100	31,717	67,256
Utilities	-	289,111	-	289,111	-	-	-	-	289,111
Broadcasting fees	75	-	-	75	-	-	-	-	75
	8,619,318	2,574,406	4,967	11,198,691	2,677,282	5,844,822	319,353	8,841,457	20,040,148
In-kind	-	325,429	-	325,429	-	3,027,418	-	3,027,418	3,352,847
	\$ 8,619,318	2,899,835	4,967	11,524,120	2,677,282	8,872,240	319,353	11,868,875	23,392,995
Percentage of total expenses before depreciation	37%	12%	—%	49%	11%	39%	1%	51%	100%

HOUSTON PUBLIC MEDIA
(A Division of the University of Houston System)
Component Unit (HPMF) Schedule of Functional Expenses
Year Ended August 31, 2019

Schedule 4

Class	Grants to Primary	Programming and production (PRD)	Broadcasting, engineering and technical (BET)	Program information (PGM)	Total	Fundraising and membership development (FND)	Management and general (MGT)	Underwriting and grant solicitation (UND)	Innovation and Sustainability	Total	Grand Total
Financial and legal services	\$ -	-	-	-	-	336	116,930	-	-	117,266	117,266
Fundraising	-	27,873	-	-	27,873	397,539	8,228	1,329	-	407,096	434,969
Grants to KUHF-FM	6,291,874	-	-	-	6,291,874	-	-	-	-	-	6,291,874
Grants to KUHT-TV	6,291,874	-	-	-	6,291,874	-	-	-	-	-	6,291,874
Innovation and sustainability grants	-	-	-	-	-	-	-	-	2,020,268	2,020,268	2,020,268
Membership fees	-	-	-	-	-	780	1,708	-	-	2,488	2,488
Other expenses	-	84,804	-	6,953	91,757	485,121	24,061	1,113,392	-	1,622,574	1,714,331
Mail services	-	-	-	-	-	165,029	13	-	-	165,042	165,042
Printing and reproduction services	-	94	-	-	94	89,245	5,677	-	-	94,922	95,016
Professional services	-	23,300	44,400	-	67,700	77,078	20,402	-	-	97,480	165,180
Rental and leases	-	1,154	-	-	1,154	1,219	18	-	-	1,237	2,391
Repairs and maintenance	-	-	-	-	-	-	691	-	-	691	691
Supplies and materials	-	-	-	-	-	162,568	624	113	-	163,305	163,305
Telephone	-	-	-	-	-	15	-	-	-	15	15
Travel	-	-	-	-	-	2,669	1,651	-	-	4,320	4,320
	<u>\$ 12,583,748</u>	<u>137,225</u>	<u>44,400</u>	<u>6,953</u>	<u>12,772,326</u>	<u>1,381,599</u>	<u>180,003</u>	<u>1,114,834</u>	<u>2,020,268</u>	<u>4,696,704</u>	<u>17,469,030</u>

HOUSTON PUBLIC MEDIA

(A Division of the University of Houston System)

Combining Schedule of Revenues and Expenses by Station

Year Ended August 31, 2020

Schedule 5

	KUHF-FM	KUHT-TV	Totals
Operating revenues:			
Contributions	\$ 7,115,370	6,612,772	13,728,142
General support from the UH System	1,640,569	1,894,043	3,534,612
Program underwriting	1,769,205	1,688,910	3,458,115
Production service	540,393	540,315	1,080,708
CORP for public broadcasting grants	571,348	1,647,177	2,218,525
Special events	-	6,834	6,834
Other	209,718	284,936	494,654
Total operating revenues	<u>11,846,603</u>	<u>12,674,987</u>	<u>24,521,590</u>
Operating expenses:			
Salaries and wages	2,740,054	2,738,882	5,478,936
Fringe benefits	1,920,439	1,916,143	3,836,582
Financial and legal services	139,734	156,918	296,652
Fundraising	241,225	399,652	640,877
Membership fees	3,769	58,574	62,343
Other expenses	2,495,420	2,092,869	4,588,289
Mail services	73,374	78,975	152,349
Printing and reproduction services	58,840	59,662	118,502
Professional services	192,783	159,455	352,238
Program rights	1,748,308	2,694,157	4,442,465
Rental and leases	248,960	360,979	609,939
Repairs and maintenance	114,113	129,736	243,849
Supplies and materials	1,115,009	1,089,867	2,204,876
Telephone	18,799	19,020	37,819
Travel	22,884	7,851	30,735
Utilities	139,518	143,060	282,578
Broadcasting fees	75	75	150
In-kind	1,640,569	1,894,043	3,534,612
Depreciation	63,395	841,843	905,238
Total operating expenses	<u>12,977,268</u>	<u>14,841,761</u>	<u>27,819,029</u>
Operating loss	<u>(1,130,665)</u>	<u>(2,166,774)</u>	<u>(3,297,439)</u>
Nonoperating income (loss):			
Endowment distributions	(52,457)	(6,034)	(58,491)
Gain from endowment	81,117	57,518	138,635
Other nonoperating income	5,569	5,569	11,138
Total nonoperating income (loss)	<u>34,229</u>	<u>57,053</u>	<u>91,282</u>
Change in net position	<u>\$ (1,096,436)</u>	<u>(2,109,721)</u>	<u>(3,206,157)</u>

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Audit and Compliance

ITEM: Report on External Audit Reports-- University of Houston System, State Auditor Reports:

- State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2020, Report No. 21-015 (excerpts)
- State of Texas Financial Portion of the Statewide Single Audit Report for the year Ended August 31, 2020, Report No. 21-555 (excerpts)

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Audit & Compliance Committee Charter and Checklist, item number 13, requires the Committee to review any significant findings and recommendations of the State Auditor and any employed public accounting firm or other outside expertise.

Attached is a listing of key points in these reports together with excerpts from the reports related to UHS components.

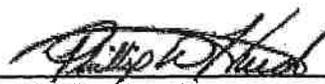
SUPPORTING

DOCUMENTATION: External Audit Reports: SAO Reports 21-015 – State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2020 (excerpts) and 21-555 – State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2020 (excerpts)

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



CHIEF AUDIT EXECUTIVE Phillip W. Hurd

4-30-2021

DATE



CHANCELLOR Renu Khator

5/17/2021

DATE

State Auditor Reports

State Auditor Report	Report	Page
21-015—State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2020		
Key Points of Report No. 21-015	21-015	1
State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2020, Excerpts of Report No. 21-015		4
21-555—State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2020	21-555	
Key Point of Report No. 21-555		84
State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2020, Excerpts of Report No. 21-555		85

State Auditor Reports
Key Points

#21-015– Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2020

Findings - UH

- 1) #2020-126 Eligibility, Special Tests and Provision, Institutional Eligibility, Activities Allowed or Unhallowed, Cash Management, Verification, Disbursements to or on Behalf of Students, Borrower Data Transmission and Reconciliation (Direct Loan), General Program Eligibility, Distance Program Education
 - Develop and implement procedures to demonstrate its compliance with the incarcerated student limitation. **(Action Complete)**
 - Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems. **(Action Complete)**
- 2) #2020-127 Reporting
 - Strengthen its controls to ensure that TEACH Grant origination and disbursement information is reported to Common Origination and Disbursement accurately. **(Action Complete)**
 - Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems. **(Action Complete)**
- 3) #2020-128 Special Tests and Provisions, Return of Title IV Funds
 - Strengthen its controls to ensure that it accurately calculates returns of Title IV funds when required, including review of the variables it uses in those calculations. **(Action Complete)**
 - Develop and implement controls to prevent its student information system from disbursing Title IV assistance to withdrawn students prior to performing a return of Title IV funds calculation. **(Action Complete)**
 - Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems. **(Action Complete)**
- 4) #2020-129 (prior audit issues 2017-134, 2016-131, 2015-124, 2014-140, 2013-165, 13-147, 12-153, 11-154, 10-98, 09-87, 08-74, and 07-58) Special Tests and Provisions, Enrollment Reporting
 - Develop and implement controls to ensure that campus-level and program-level data elements are reported to NSLDS accurately and in a timely manner. **(Action Complete)**
 - Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems. **(Action Complete)**
- 5) #2020-130 Activities Allowed or Unallowed, Allowed Costs/Cost Principles, Matching, Level of Effort, Earmarking, Reporting
 - Ensure that only allowable costs are charged to federal awards. **(Action Complete)**
 - Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems. **(Action Complete)**
- 6) #2020-131 Period of Performance

- Ensure that all costs it charges to federal awards are incurred within the period of performance. **(Action Complete)**
- Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems. **(Action Complete)**

Findings – UHCL

- 7) #2020-132 Eligibility, Special Tests and Provision, Institutional Eligibility, Activities Allowed or Unhallowed, Cash Management, Reporting, Disbursements to or on Behalf of Students, Borrower Data Transmission and Reconciliation (Direct Loan), General Program Eligibility, Distance Program Education
- Strengthen its controls to ensure that it correctly calculates students' cost of attendance budgets in accordance with its process. **(Action Complete)**
 - Award students the correct amount of Federal Pell Grant assistance for an award year. **(Scheduled Implementation Date: July 2021)**
 - Award Federal Supplemental Educational Opportunity Grants assistance only to eligible students. **(Action Complete)**
 - Update its ECAR as required, and ensure that it does not disburse financial assistance to students at locations that are not on its Eligibility and Certification Approval Report (ECAR). **(Action Complete)**
 - Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems. **(Action Complete)**
- 8) #2020-133 Special Tests and Provisions, Verification
- Strengthen its controls to ensure that it accurately verifies all required Free Application for Federal Student Aid information for students selected for verification. **(Action Complete)**
 - Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems. **(Action Complete)**
- 9) #2020 -134 Special Tests and Provisions, Return of Title IV Funds
- Strengthen its controls to ensure that it accurately calculates returns of Title IV funds when required, including review of the variables it uses in those calculations. **(Scheduled Implementation Date: May 2021)**
 - Return Title IV funds in the order required by the U.S. Department of Education. **(Scheduled Implementation Date: May 2021)**
 - Strengthen its monitoring controls to ensure that it detects and corrects errors in return of Title IV calculations and returns Title IV funds within required time frames. **(Action Complete)**
 - Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems. **(Action Complete)**
- 10) #2020-135 Special Tests and Provisions, Enrollment Reporting
- Strengthen its controls to ensure that program-level data elements are reported to National Student Loan Data System (NSLDS) accurately. **(Scheduled Implementation Date: June 2021)**

- Ensure that students who unofficially withdrew from a term are reported to NSLDS. **(Scheduled Implementation Date: February 2021; partially implemented with new implementation date of Summer 2021)**
- Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems. **(Action Complete)**

Follow-up on Prior Year Audit Findings - UH

- 11) #2017-131 (prior audit issues 2016-128 and 2015-120) Eligibility, Activities Allowed or Unallowed, Special Tests and Provisions – Institutional Eligibility
- Award Federal Supplemental Education Opportunity Grants (FSEOG) assistance only to eligible students **(Action Complete)**
- 12) #2017-132 (prior audit issues 2016-129, 2015-121, and 2014-139) Eligibility, Activities Allowed or Unallowed, Special Tests and Provisions – Verification
- Accurately verify required Free Application for Federal Student Aid (FAFSA) information for students selected for verification and make changes based only on the supporting documentation that students provide. **(Action Complete)**
 - Establish and implement an effective monitoring process for verification. **(Action Complete)**



State of Texas Federal Portion of the

Statewide Single Audit Report for the Year Ended August 31, 2020

Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor
Audit 05/20/21

**STATE OF TEXAS
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INDEPENDENT AUDITORS' REPORTS
FEDERAL PORTION OF STATEWIDE SINGLE AUDIT REPORT
YEAR ENDED AUGUST 31, 2020



Lisa R. Collier,
CPA, CFE, CIDA,
First Assistant State Auditor

INDEPENDENT AUDITOR'S REPORT ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable Greg Abbott, Governor
The Honorable Glenn Hegar, Comptroller of Public Accounts
The Honorable Dan Patrick, Lieutenant Governor
The Honorable Dade Phelan, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

We have audited the consolidated financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Texas, as of and for the year ended August 31, 2020, and have issued our report thereon dated February 23, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

As described in Note 1 to the schedule of expenditures of federal awards, the schedule of expenditures of federal awards does not include expenditures of federal awards for five component units of the State of Texas. Each of those component units has its own independent audit in compliance with the Uniform Guidance.

Lisa R. Collier

Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

February 23, 2021

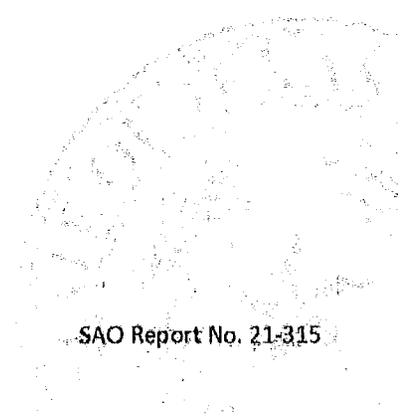
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SAO Report No. 21-315



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Honorable Greg Abbott, Governor
The Honorable Glenn Hegar, Comptroller of Public Accounts
The Honorable Dan Patrick, Lieutenant Governor
The Honorable Dade Phelan, Speaker of the House of Representatives
Members of the Legislature, State of Texas

Report on Compliance for Each Major Federal Program

We have audited the State of Texas' (the State) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended August 31, 2020. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The State's financial statements include the operations of a blended component unit, Texas A&M Research Foundation (TAMRF), which expended approximately \$61.4 million in federal awards which is not included in the State's schedule of expenditures of federal awards for the year ended August 31, 2020. Our audit, described below, did not include the operations of TAMRF because the entity has engaged other auditors to perform an audit in accordance with the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Management's Responsibility

Management of the State agencies and Universities is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the State's major federal programs based on our audit of the types of compliance requirements referred to above. We did not audit the State's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Student Financial Assistance Cluster and Education Stabilization Fund under the Coronavirus Aid, Relief, and Economic Security Act major federal programs (the other auditor's major federal programs), which represents approximately 5% of total federal assistance expended by the State for the year ended August 31, 2020. The other auditor's major federal programs are identified in the accompanying schedule of findings and questioned costs as major federal programs and were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the other auditor's major federal programs are based solely on the reports of the other auditor. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

The Honorable Greg Abbott, Governor
 The Honorable Glenn Hegar, Comptroller of Public Accounts
 The Honorable Dan Patrick, Lieutenant Governor
 The Honorable Dade Phelan, Speaker of the House of Representatives
 Members of the Legislature, State of Texas

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the State's compliance.

Basis for Qualified Opinion

As described in the accompanying schedule of findings and questioned costs, the State did not comply with requirements related to the following:

Agency	Major Program	Compliance Requirement	Finding Number
Texas Workforce Commission	CFDA 84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States	Matching, Level of Effort, Earmarking	2020-035

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to that program.

Qualified Opinion

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Rehabilitation Services – Vocational Rehabilitation Grants to States program for the year ended August 31, 2020.

Unmodified Opinions on Each of the Other Major Federal Programs

In our opinion, based on our audit and the report of the other auditor, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended August 31, 2020.

Other Matters

The results of our auditing procedures and the report of the other auditor disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items:

Agency	Major Program	Compliance Requirement	Finding Number
Texas Department of Agriculture	Child Nutrition Cluster	Special Tests and Provisions – Verification of Free and Reduced Price Applications (NSLP)	2020-004
Department of Family and Protective Services	CFDA 93.658 - Foster Care-Title IV-E CFDA 93.659 - Adoption Assistance Medicaid Cluster	Allowable Costs/Cost Principles	2020-005
General Land Office	CFDA 14.228 - Community Development Block Grant	Reporting	2020-009
		Special Tests and Provisions – Wage Rate Requirements	2020-011

The Honorable Greg Abbott, Governor
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Agency	Major Program	Compliance Requirement	Finding Number
Texas Tech University	Student Financial Assistance Cluster	Eligibility	2020-116
		Special Tests and Provisions – Enrollment Reporting	2020-117
	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	Allowable Costs/Cost Principles	2020-118
		Reporting	2020-119
Texas Woman’s University	Student Financial Assistance Cluster	Cash Management Reporting	2020-120
		Eligibility	2020-121
		Special Tests and Provisions – Verification	2020-122
		Special Tests and Provisions – Return of Title IV Funds	2020-123
		Special Tests and Provisions – Enrollment Reporting	2020-124
		Special Tests and Provisions – Gramm-Leach-Bliley Act – Student Information Security	2020-125
University of Houston	Student Financial Assistance Cluster	Eligibility	2020-126
		Special Tests and Provisions – Institutional Eligibility Reporting	2020-127
		Special Tests and Provisions – Return of Title IV Funds	2020-128
		Special Tests and Provisions – Enrollment Reporting	2020-129
	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2020-130
		Period of Performance	2020-131

The Honorable Greg Abbott, Governor
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Agency	Major Program	Compliance Requirement	Finding Number
University of Houston – Clear Lake	Student Financial Assistance Cluster	Eligibility Special Tests and Provisions – Institutional Eligibility	2020-132
		Special Tests and Provisions – Verification	2020-133
		Special Tests and Provisions – Return of Title IV Funds	2020-134
		Special Tests and Provisions – Enrollment Reporting	2020-135
University of North Texas	Student Financial Assistance Cluster	Special Tests and Provisions – Enrollment Reporting	2020-136
University of North Texas at Dallas	Student Financial Assistance Cluster	Eligibility	2020-137
		Reporting	2020-138
		Special Tests and Provisions – Verification	2020-139
		Special Tests and Provisions – Return of Title IV Funds	2020-140
University of Texas at Arlington	Student Financial Assistance Cluster	Special Tests and Provisions – Enrollment Reporting	2020-141
		Special Tests and Provisions – Return of Title IV Funds	2020-142
University of Texas at Austin	Student Financial Assistance Cluster	Special Tests and Provisions – Enrollment Reporting	2020-143
		Special Tests and Provisions – Enrollment Reporting	2020-144
University of Texas at Dallas	Student Financial Assistance Cluster	Eligibility	2020-145
		Special Tests and Provisions – Enrollment Reporting	2020-146

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Agency	Major Program	Compliance Requirement	Finding Number
University of Texas at El Paso	Student Financial Assistance Cluster	Eligibility	2020-147
		Special Tests and Provisions – Verification	2020-148
		Special Tests and Provisions – Return of Title IV Funds	2020-149
		Special Tests and Provisions – Enrollment Reporting	2020-150
University of Texas Rio Grande Valley	Student Financial Assistance Cluster	Special Tests and Provisions – Enrollment Reporting	2020-151
		Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	2020-152
		Cash Management	2020-153
		Period of Performance	2020-154
University of Texas at San Antonio	Student Financial Assistance Cluster	Special Tests and Provisions – Disbursements to or on Behalf of Students	2020-155
		Special Tests and Provisions – Return of Title IV Funds	2020-156

Our opinion on each major federal program, based on our audit and the report of the other auditor, is not modified with respect to these matters.

The State's response to the noncompliance findings identified in our audit and the report of the other auditor is described in the accompanying schedule of findings and questioned costs. The State's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the State agencies and Universities is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

The Honorable Greg Abbott, Governor
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A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs and listed below that we consider to be significant deficiencies.

Agency	Major Program	Compliance Requirement	Finding Number
Texas Department of Agriculture	CFDA 14.228 – Community Development Block Grant	Reporting	2020-001
		Reporting	2020-002
	Child Nutrition Cluster CFDA 10.558 - Child and Adult Care Food Program	Cash Management Eligibility Subrecipient Monitoring, Special Tests and Provision – Verification of Free and Reduced Price Applications (NSLP)	2020-003
	Child Nutrition Cluster	Special Tests and Provisions – Verification of Free and Reduced Price Applications (NSLP)	2020-004
Department of Family and Protective Services	CFDA 93.658 - Foster Care-Title IV-E CFDA 93.659 - Adoption Assistance Medicaid Cluster	Allowable Costs/Cost Principles	2020-005
	CFDA 93.658 - Foster Care-Title IV-E CFDA 93.659 - Adoption Assistance CFDA 93.667 - Social Services Block Grant	Eligibility	2020-006

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Agency	Major Program	Compliance Requirement	Finding Number	
University of Houston	Student Financial Assistance Cluster	Eligibility Special Tests and Provisions – Institutional Eligibility Activities Allowed or Unallowed Cash Management Special Tests and Provisions – Verification Specials Tests and Provisions – Disbursements to or on Behalf of Students Special Tests and Provisions – Borrower Data Transmission and Reconciliation (Direct Loan) Special Tests and Provisions – General Program Eligibility Special Tests and Provisions – Distance Education Program	2020-126	
		Reporting	2020-127	
		Special Tests and Provisions – Return of Title IV Funds	2020-128	
		Special Tests and Provisions – Enrollment Reporting	2020-129	
		Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	Activities Allowed or Unallowed Allowable Costs/Cost Principles Matching, Level of Effort, Earmarking Reporting	2020-130
			Period of Performance	2020-131

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Agency	Major Program	Compliance Requirement	Finding Number
University of Houston – Clear Lake	Student Financial Assistance Cluster	Eligibility Special Tests and Provisions – Institutional Eligibility Activities Allowed or Unallowed Cash Management Reporting Special Tests and Provisions – Disbursements to or on Behalf of Students Special Tests and Provisions – Borrower Data Transmission and Reconciliation (Direct Loan) Special Tests and Provisions – General Program Eligibility Special Tests and Provisions – Distance Education Program	2020-132
		Special Tests and Provisions – Verification	2020-133
		Special Tests and Provisions – Return of Title IV Funds	2020-134
		Special Tests and Provisions – Enrollment Reporting	2020-135
University of North Texas	Student Financial Assistance Cluster	Special Tests and Provisions – Enrollment Reporting	2020-136
University of North Texas at Dallas	Student Financial Assistance Cluster	Eligibility Activities Allowed or Unallowed Cash Management Special Tests and Provisions – Disbursements to or on Behalf of Students Special Tests and Provisions – Borrower Data Transmission and Reconciliation (Direct Loan) Special Tests and Provisions – Institutional Eligibility	2020-137

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Agency	Major Program	Compliance Requirement	Finding Number
University of Texas at El Paso	Student Financial Assistance Cluster	Eligibility	2020-147
		Special Tests and Provisions – Verification	2020-148
		Special Tests and Provisions – Return of Title IV Funds	2020-149
		Special Tests and Provisions – Enrollment Reporting	2020-150
University of Texas Rio Grande Valley	Student Financial Assistance Cluster	Special Tests and Provisions – Enrollment Reporting	2020-151
		Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	2020-152
		Cash Management	2020-153
		Period of Performance	2020-154
University of Texas at San Antonio	Student Financial Assistance Cluster	Special Tests and Provisions – Disbursements to or on Behalf of Students	2020-155
		Special Tests and Provisions – Return of Title IV Funds	2020-156

The State’s response to the internal control over compliance findings identified in our audit and the report of the other auditor is described in the accompanying schedule of findings and questioned costs. The State’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Texas
 February 23, 2021

STATE OF TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2020

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
Nuclear Regulatory Commission					
Nuclear Regulatory Commission	77.XXX	31310018C0017	\$ -	\$ 4,325	\$ 4,325
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008		-	92,917	92,917
Total - Nuclear Regulatory Commission			-	97,242	97,242
U.S. Department of Energy					
U.S. Department of Energy	81.XXX	416570	-	(81,948)	(81,948)
<i>Pass-Through from National Renewable Energy Laboratory</i>		AHQ-9-92002-07	-	11,950	11,950
<i>Pass-Through from National Renewable Energy Laboratory</i>		AHQ-9-92092-05	-	720	720
Total - CFDA 81.XXX			-	(69,278)	(69,278)
State Energy Program	81.041		874,427	2,803,683	3,678,110
Weatherization Assistance for Low-Income Persons	81.042		4,760,430	386,099	5,146,529
Office of Science Financial Assistance Program	81.049				
<i>Pass-Through from University of Tennessee</i>		A16-0384-S006	-	(10,898)	(10,898)
Conservation Research and Development	81.086				
<i>Pass-Through from North Carolina State University</i>		2014-0654-79	-	38,512	38,512
Renewable Energy Research and Development	81.087		(10,073)	(980)	(11,053)
<i>Pass-Through from Alliance for Sustainable Energy, LLC</i>		AGZ-0-92264-01	-	65,873	65,873
Total - CFDA 81.087			(10,073)	64,893	54,820
Transport of Transuranic Wastes to the Waste Isolation Pilot Plant: States and Tribal Concerns, Proposed Solutions	81.106		-	834,851	834,851
Defense Nuclear Nonproliferation Research	81.113		-	12,381	12,381
<i>Pass-Through from Consortium for Nonproliferation Enabling Capabilities</i>		2014 0501 09 F1	-	23,016	23,016
Total - CFDA 81.113			-	35,397	35,397
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		-	283,536	283,536
Minority Economic Impact	81.137		-	11,822	11,822
Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response Research, Outreach, Technical Analysis	81.214		898,089	567,478	1,465,567
Total - U.S. Department of Energy			6,522,873	4,946,095	11,468,968
U.S. Department of Education					
U.S. Department of Education	84.XXX	U422B180065	218,178	450,660	668,838
<i>Pass-Through from Austin Independent School District</i>		UTA18 001596	-	5,335	5,335
<i>Pass-Through from Education Service Center Region 17</i>		A19-0059	-	46,510	46,510
<i>Pass-Through from Jobs for the Future</i>		19 037	-	476,340	476,340
Total - CFDA 84.XXX			218,178	978,845	1,197,023
Adult Education - Basic Grants to States	84.002		63,530,713	2,851,539	66,382,252
<i>Pass-Through from Brownsville Independent School District</i>		BISD		7,500	7,500
Total - CFDA 84.002			63,530,713	2,859,039	66,389,752
Title I Grants to Local Educational Agencies	84.010		1,429,782,720	15,314,647	1,445,097,367
Migrant Education State Grant Program	84.011		33,625,964	1,424,475	35,050,439
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013		1,150	2,255,819	2,256,969

STATE OF TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2020

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Education (Continued)					
National Resource Centers Program for Foreign Language and Area Studies or Foreign Language and International Studies Program and Foreign Language and Area Studies Fellowship Program	84.015		\$ -	\$ 2,436,913	\$ 2,436,913
Undergraduate International Studies and Foreign Language Programs	84.016		-	114,564	114,564
Overseas Programs - Doctoral Dissertation Research Abroad	84.022		-	39,464	39,464
Higher Education Institutional Aid <i>Pass-Through from Austin Community College</i>	84.031	UTA15 001240	291,783	29,165,943	29,457,726
<i>Pass-Through from Northeast Texas Community College</i>		440100	-	37,666	37,666
			-	321,040	321,040
Total - CFDA 84.031			291,783	29,524,649	29,816,432
Federal Family Education Loans	84.032-L		-	3,448,445	3,448,445
Career and Technical Education -- Basic Grants to States	84.048		93,521,585	9,451,479	102,973,064
Fund for the Improvement of Postsecondary Education <i>Pass-Through from Georgia State University</i>	84.116	SP00012139 10 5	-	20,240	20,240
Minority Science and Engineering Improvement <i>Pass-Through from Howard University</i>	84.120	P120A190033	-	254,163	254,163
			-	66,941	66,941
Total - CFDA 84.120			-	321,104	321,104
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126		7,582,878	245,994,618	253,577,496
Rehabilitation Long-Term Training	84.129		-	587,252	587,252
Migrant Education High School Equivalency Program	84.141		-	1,393,715	1,393,715
Migrant Education College Assistance Migrant Program	84.149		-	2,032,634	2,032,634
Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	84.177		-	2,811,633	2,811,633
Special Education-Grants for Infants and Families	84.181		50,496,972	3,056,688	53,553,660
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187		-	2,182,764	2,182,764
Education for Homeless Children and Youth <i>Pass-Through from Education Service Center Region 10</i>	84.196	UTA18 001160	7,488,021	4,780	7,492,801
			-	439	439
Total - CFDA 84.196			7,488,021	5,219	7,493,240
Graduate Assistance in Areas of National Need	84.200		-	398,240	398,240
Centers for International Business Education	84.220		-	(6,109)	(6,109)
Language Resource Centers	84.229		-	185,945	185,945
Eisenhower Professional Development State Grants	84.281		(154)	-	(154)
Charter Schools	84.282		26,907,589	1,255,633	28,163,222
Twenty-First Century Community Learning Centers	84.287		87,754,648	3,761,984	91,516,632
State Grants for Innovative Programs	84.298		(359)	-	(359)
Education Research, Development and Dissemination <i>Pass-Through from American Institutes for Research</i>	84.305	439600001	-	7,542	7,542
<i>Pass-Through from RAND Corporation</i>		19519581425	-	88,942	88,942
			-	(2)	(2)
Total - CFDA 84.305			-	96,482	96,482

STATE OF TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2020

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Education (Continued)					
Research in Special Education <i>Pass-Through from George Mason University</i>	84.324	E2048161	\$ 74,077	\$ 239,431	\$ 313,508
			-	99,236	99,236
Total - CFDA 84.324			74,077	338,667	412,744
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities <i>Pass-Through from East Carolina University</i>	84.325	H325H190001	-	2,167,868	2,167,868
<i>Pass-Through from Vanderbilt University</i>		UNIV61347	46,795	-	46,795
<i>Pass-Through from Vanderbilt University</i>		3122 018447	-	707	707
			-	43,122	43,122
Total - CFDA 84.325			46,795	2,211,697	2,258,492
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities <i>Pass-Through from University of Oregon</i>	84.326	282070F	-	571,176	571,176
<i>Pass-Through from WestEd</i>		S00027412 0	-	76,489	76,489
			-	92,868	92,868
Total - CFDA 84.326			-	740,533	740,533
Gaining Early Awareness and Readiness for Undergraduate Programs <i>Pass-Through from Region One Education Service Center</i>	84.334	REQUISITION #137368 - PO 129781	2,796,551	13,460,785	16,257,336
			-	13,224	13,224
Total - CFDA 84.334			2,796,551	13,474,009	16,270,560
Child Care Access Means Parents in School	84.335		-	584,184	584,184
Class Size Reduction	84.340		(940)	-	(940)
Credit Enhancement for Charter School Facilities	84.354		-	12,545,203	12,545,203
Rural Education	84.358		7,094,167	402,508	7,496,675
English Language Acquisition State Grants	84.365		91,890,180	2,931,014	94,821,194
Mathematics and Science Partnerships	84.366		-	(181,339)	(181,339)
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants) <i>Pass-Through from Brownfield Independent School District</i>	84.367	A19-0753	167,554,743	6,443,685	173,998,428
<i>Pass-Through from Duncanville Independent School District</i>		19-0757	-	18,000	18,000
<i>Pass-Through from Grand Prairie Independent School District</i>		19-0754	-	17,855	17,855
<i>Pass-Through from Greenville Independent School District</i>		19-0758	-	42,791	42,791
<i>Pass-Through from Lubbock Independent School District</i>		19-0755	-	27,000	27,000
<i>Pass-Through from North East Independent School District</i>		PO 824480-0-0901	-	13,496	13,496
<i>Pass-Through from Plainview ISD</i>		19-0759	-	676	676
			-	13,114	13,114
Total - CFDA 84.367			167,554,743	6,576,617	174,131,360
Grants for State Assessments and Related Activities	84.369		3,798,664	676,108	4,474,772
Comprehensive Literacy Development	84.371		(99)	-	(99)
Statewide Longitudinal Data Systems	84.372		(81,804)	480,349	398,545
School Improvement Grants	84.377		36,814,624	-	36,814,624
Education Innovation and Research (formerly Investing in Innovation (i3) Fund) <i>Pass-Through from Austin Independent School District</i>	84.411	UTA18 000575	-	17,762	17,762
<i>Pass-Through from Jobs for the Future</i>		U411B180040-18A	33,333	72,502	72,502
<i>Pass-Through from National Writing Project</i>		09-TX19-201813C3WP	-	33,333	33,333
		REQUISITION 140018 - PO	-	88,342	88,342
<i>Pass-Through from Region One Education Service Center</i>		132321	-	30,000	30,000
<i>Pass-Through from University of Georgia</i>		435802	-	1,468	1,468
Total - CFDA 84.411			33,333	210,074	243,407

STATE OF TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2020

Cluster Name/Federal Grantor/Program Name/ Pass-through Entity	CFDA	Federal/Pass-through Entity Other Identifying No.	Pass-through to Non-State Entities	Expenditures	Total
U.S. Department of Education (Continued)					
COVID-19 - Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425D		\$ 105,481,452	\$ 5,169,179	\$ 110,650,631
COVID-19 - Higher Education Emergency Relief Fund (HEERF) Student Aid Portion	84.425E		-	200,994,183	200,994,183
COVID-19 - Higher Education Emergency Relief Fund (HEERF) Institutional Portion	84.425F		-	128,448,176	128,448,176
COVID-19 - HEERF Historically Black Colleges and Universities (HBCUs)	84.425J		-	3,426,272	3,426,272
COVID-19 - Higher Education Emergency Relief Fund (HEERF) Minority Serving Institutions (MSIs)	84.425L		-	8,328,610	8,328,610
COVID-19 - HEERF Strengthening Institutions Program (SIP)	84.425M		-	5,485,059	5,485,059
Supporting Effective Educator Development Program	84.423		60,361	1,379,497	1,439,858
Student Support and Academic Enrichment Program <i>Pass-Through from Ysleta Independent School District</i>	84.424	19-1137/20200024	67,841,041	1,009,647	68,850,688
			-	13,608	13,608
Total - CFDA 84.424			67,841,041	1,023,255	68,864,296
Disaster Recovery Assistance for Education	84.938		21,638,157	599,318	22,237,475
Total - U.S. Department of Education			2,306,242,990	727,789,554	3,034,032,544
Consumer Product Safety Commission					
Gulf Coast Ecosystem Restoration Council Comprehensive Plan Component Program	87.051		-	86,890	86,890
Gulf Coast Ecosystem Restoration Council Oil Spill Impact Program	87.052		-	21,895	21,895
Total - Consumer Product Safety Commission			-	108,785	108,785
National Archives and Records Administration					
National Historical Publications and Records Grants <i>Pass-Through from Texas Christian University</i>	89.003	25300-19-00	-	2,817,367	2,817,367
			-	10,768	10,768
Total - CFDA 89.003			-	2,828,135	2,828,135
Total - National Archives and Records Administration			-	2,828,135	2,828,135
Denali Commission					
2018 HAVA Election Security Grants	90.404		9,910,454	4,072,840	13,983,294
Total - Denali Commission			9,910,454	4,072,840	13,983,294
U.S. Department of Health and Human Services					
U.S. Department of Health and Human Services	93.XXX	HSSH250201000011C/00 HSSH258201800009C 3R24OD011120-11S2	-	4,002,922	4,002,922
			216,114	95,812	311,926
			-	43,858	43,858
Total - CFDA 93.XXX			216,114	4,142,592	4,358,706
Strengthening Public Health Services at the Outreach Offices of the U.S.- Mexico Border Health Commission	93.018		(1,898)	(172,964)	(174,862)
Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		253,822	-	253,822

STATE OF TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The State of Texas Schedule of Expenditures of Federal Awards (the Schedule) includes the activity of all federal award programs administered by the primary government except for the federal activity of the Texas A&M Research Foundation (TAMRF), a blended component unit of the Texas A&M University System. TAMRF is excluded from the Schedule and is subject to a separate audit in compliance with the audit requirements of *Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The Schedule does not include the federal activity of discrete component units. These entities are legally separate from the state and are responsible for undergoing separate audits as needed to comply with the OMB Uniform Guidance. The federal activity of the following discrete component units is excluded from the Schedule:

OneStar National Service Commission
Texas Boll Weevil Eradication Foundation Inc.
Teacher Retirement System of Texas
Texas State Affordable Housing Corporation

(b) Basis of Presentation

The Schedule presents total federal awards expended for each individual federal program during the fiscal year ended August 31, 2020. The information in the Schedule is presented in accordance with the requirements of OMB Uniform Guidance.

Federal award program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA). Federal award program titles not presented in the CFDA are identified by federal agency number followed by (.XXX). Federal award programs include expenditures, pass-throughs to non-state agencies (i.e., payments to subrecipients), non-monetary assistance, and loan programs.

(c) Basis of Accounting

The expenditures for each of the federal financial assistance programs are presented in the Schedule on the accounting basis as presented on the fund financial statements. For entities with governmental funds, expenditures are presented on a modified accrual basis. For entities with proprietary or fiduciary funds, expenditures are presented on the full accrual basis. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, or the cost principles contained in *Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement for all awards with the exception of the Coronavirus Relief Fund (CFDA 21.019) and those programs identified in Appendix I of the 2020 Compliance Supplement. CFDA 21.019 follows criteria determined by the U.S. Department of Treasury for allowability of costs. Programs identified in Appendix I of the 2020 Compliance Supplement follow the cost principles contained in the Uniform Grant Management Standards issued by the Texas Comptroller of Public Accounts for allowability of costs.

The expenditures in the Student Financial Assistance Cluster that meet the qualification for continuing compliance requirements include the beginning balance of outstanding loans from previous reporting periods, new loans processed in the current reporting period, and the administrative cost recovered. Additional information on all loan expenditures can be seen in Note 5.

Both the modified accrual and accrual basis of accounting incorporate an estimation approach to determine the amount of expenditures incurred if not yet billed by a vendor. Thus, those federal programs presenting negative amounts on the Schedule are the result of prior year estimates being overstated and/or reimbursements¹⁰⁴ due back to the grantor.

**STATE OF TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Matching Costs

Matching costs, the nonfederal share of certain program costs, are not included in the Schedule, except for the state's share of unemployment insurance (See Note 4).

(e) Indirect Cost Rate

The following state agency has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance:

Texas Prepaid Higher Education Tuition Board

NOTE 2 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule, which is prepared on the basis explained in Note 1c.

NOTE 3 RELATIONS TO REVENUES IN THE STATE OF TEXAS' FUND FINANCIAL STATEMENTS

The following is a reconciliation of total federal awards expended as reported in the Schedule to federal revenues reported in the fund financial statements.

FEDERAL REVENUES

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds, Federal Revenue	\$ 56,242,089,218
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds, Federal Revenue	26,704,160,599
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds, Capital Contributions - Federal	(3,726,560)
Statement of Changes in Fiduciary Net Position	<u>111,314,327</u>
Total Federal Revenue per Fund Financial Statements	83,053,837,584

RECONCILING ITEMS

Noncash Federal Commodities/Vaccines/Surplus Property/ Other (Note 6)	831,695,707
Various Loans Processed by Universities and Agencies (Note 5)	3,092,602,895
Beginning Balance of Loans as of September 1, 2019 for Various Loan Programs (Note 5)	114,436,319
State Unemployment Funds (Note 4)	8,326,796,172
Programs Not Subject to OMB Uniform Guidance (Note 8)	(242,423,958)
Other*	(1,277,205)
Blended Component Unit Not Included in the Schedule of Expenditures of Federal Awards (Note 1(a))	<u>(61,416,415)</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 95,114,251,099</u>

*This amount includes deductions of \$3,118,983 for fixed fee contracts; deductions of \$4,461,249 for vendor transactions; additions of \$12,329,382 for Credit Enhancement for Charter School Facilities; additions of \$389,461 for Smith-Lever Act Federal Appropriation; deductions of \$6,415,979 of other transactions; and an addition of \$163 for rounding in the Schedule.

**STATE OF TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2020**

NOTE 4 UNEMPLOYMENT INSURANCE FUNDS

State unemployment tax revenues and the government and nonprofit contributions in lieu of state taxes (State UI funds) must be deposited into the Unemployment Trust Fund in the U.S. Treasury. Use of these funds is restricted to pay benefits under the federally approved State Unemployment Law. State UI funds as well as federal funds are reported in the Schedule under CFDA 17.225. The state portion in the amount of \$8.3 billion is a reconciling item in the reconciliation of the Schedule to revenues in the fund financial statements (see Note 3).

NOTE 5 FEDERALLY FUNDED LOAN/CREDIT ENHANCEMENT PROGRAMS

The state participates in various federally funded loan and credit enhancement programs. The programs can be grouped into three broad categories:

- Federally Funded Student Loan Programs
- Other Federally Funded Loan Programs
- Federally Funded Credit Enhancement Program

(a) Federally Funded Student Loan Programs

The state participates in student loan programs on which the federal government imposes continuing compliance requirements. Additionally, the state participates in other student loan programs that do not require continuing compliance. The charts below summarize activity by the state for federally funded student loan programs:

Student Loan Programs with Continuing Compliance Requirements

CFDA Number	Program Name	Beginning Balance of Loans as of September 1, 2019	Ending Balance of Loans as of August 31, 2020	New Loans Processed
84.032L	Federal Family Education Loan Program (FFELP)	\$ 3,411,174	\$ 3,025,978	\$ -
84.038	Federal Perkins Loan (FPL) - Federal Capital Contributions	92,055,976	74,764,959	(54,237)
93.108	Health Education Assistance Loan Program (HEAL)	1,139,795	902,417	-
93.264	Nurse Faculty Loan Program (NFLP)	1,404,302	1,238,390	285,267
93.342	Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students (HPSL/PCL/LDS)	15,369,972	16,640,061	3,343,082
93.364	Nursing Student Loans (NSL)	753,075	760,998	547,767
93.408	ARRA - Nurse Faculty Loan Program	302,025	269,863	12,000
		<u>\$ 114,436,319</u>	<u>\$ 97,602,666</u>	<u>\$ 4,133,879</u>

**STATE OF TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2020**

NOTE 5 FEDERALLY FUNDED LOAN/CREDIT ENHANCEMENT PROGRAMS (CONTINUED)

(a) Federally Funded Student Loan Programs (Continued)

Other Student Loan Programs

CFDA Number	Program Name	New Loans Processed
84.268	Federal Direct Student Loans (Direct Loan)	<u>\$ 3,088,469,018</u>

New student loans processed totaling \$3.1 billion are included in the Schedule and are part of a reconciling item on Note 3.

The Federal Direct Student Loans Program (Direct Loan, CFDA 84.268) does not require universities to disburse funds. The proceeds are disbursed by the federal government for Direct Loans.

(b) Other Federally Funded Loan Programs

Clean Water State Revolving Funds (CWSRF, CFDA 66.458)

The Texas Water Development Board receives capitalization grants to create and maintain Clean Water State Revolving Funds programs (CWSRF, CFDA 66.458). The state can use capitalization grant funds to provide a long-term source of state financing for construction of wastewater treatment facilities and implementation of other water quality management activities.

The CWSRF provides loans at interest rates lower than what can be obtained through commercial markets. Mainstream funds offer a net long-term fixed interest rate below market rate for those applicants financing the origination fee. The maximum repayment period for most CWSRF loans is 30 years from completion of construction. Capitalization loans processed for CWSRF for the year ended August 31, 2020 were approximately \$68.3 million and are included in the Schedule. CWSRF outstanding loans, with no continuing audit requirements, at August 31, 2020 were approximately \$3.2 billion.

Drinking Water State Revolving Funds (DWSRF, CFDA 66.468)

The Texas Water Development Board receives capitalization grants to create and maintain Drinking Water State Revolving Funds programs (DWSRF, CFDA 66.468). The state can use capitalization grant funds to establish a revolving loan fund. The revolving loan fund can assist public water systems in financing the costs of infrastructure needed to achieve or maintain compliance with the Safe Drinking Water Act. These compliance requirements ensure the public health objectives of the Safe Drinking Water Act.

The DWSRF can provide loans at interest rates lower than the market or provide other types of financial assistance for qualified communities, local agencies, and private entities. Mainstream funds offer a net long-term fixed interest rate below market rate for those applicants financing the origination fee. The maximum repayment period for most DWSRF loans is 30 years from the completion of construction. Capitalization loans processed for DWSRF for the year ended August 31, 2020 were approximately \$73.2 million and are included in the Schedule. DWSRF outstanding loans, with no continuing audit requirements, at August 31, 2020 were approximately \$1.6 billion.

STATE OF TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2020

NOTE 5 FEDERALLY FUNDED LOAN/CREDIT ENHANCEMENT PROGRAMS (CONTINUED)

(b) Other Federally Funded Loan Programs (Continued)

Drinking Water State Revolving Funds (DWSRF, CFDA 66.468) (Continued)

The chart below summarizes activity by the state for the two revolving loan programs.

CFDA Number	Program Name	New Loans Processed
66.458	Clean Water State Revolving Funds (CWSRF)	\$ 68,296,349
66.468	Drinking Water State Revolving Funds (DWSRF)	73,169,554
Total New Loans Processed		<u>\$ 141,465,903</u>

State Energy Program (SEP, CFDA 81.041)

The State Energy Conservation Office receives an annual grant from the U.S. Department of Energy (DOE) to provide funds for the State Energy Program (SEP). These low interest loans enable the municipalities to maximize their energy efficiency through building retrofits. The loans are paid back with funds saved from the reduction of energy costs. Also, The State Energy Conservation Office has chosen to continue the administration of the American Recovery and Reinvestment Act (ARRA) revolving loan program made available through the Department of Energy in 2009. The program will still offer low interest loans intended to assist governmental entities in financing their energy related cost reduction efforts. No dollars have been transferred from the now discontinued ARRA award to the annual SEP award and all monitoring will follow the same guidelines as the SEP annual grant.

CFDA Number	Program Name	New Loans Processed
81.041	State Energy Program	<u>\$ 10,844,568</u>

(c) Federally Funded Credit Enhancement Program

Credit Enhancement for Charter School Facilities (CFDA 84.354)

In 2005, the Texas Public Finance Authority Charter School Finance Corporation formed a consortium with the Texas Education Agency and the Texas Charter School Resource Center to apply for a federal grant to assist charter schools. In 2006, the consortium received \$10 million in federal grants, to which the Texas Education agency added \$100,000, to establish the Texas Credit Enhancement Program (TCEP). The \$12.3 million of federal grants received are subject to continuing audit requirements and are included in the Schedule. In addition, approximately \$215.8 thousand of interest earned on the federal grant monies drawn down in fiscal 2020 is also included in the Schedule.

The TCEP provides credit enhancement grants to eligible charter schools by funding debt service reserve funds for bonds issued on behalf of the schools to finance education facilities. As of August 31, 2020, approximately \$10.1 million of the grant funds and related interest earnings were allocated in the form of credit enhancements to various charter schools.

**STATE OF TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2020**

NOTE 6 NONMONETARY ASSISTANCE

The state is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements and are therefore not recorded in the state's fund financial statements. Awards received by the state, which includes cash and noncash amounts, are included in the Schedule as follows:

CFDA Number	Program Name	Grant Award
10.555	National School Lunch Program	\$ 192,146,060
10.559	Summer Food Service Program for Children	27,967
10.565	Commodity Supplemental Food Program	20,172,727
10.569	Emergency Food Assistance Program (Food Commodities)	194,270,706
39.003	Donation of Federal Surplus Personal Property	8,689,965
93.268	Immunization Cooperative Agreements	<u>416,388,282</u>
Total Grant Awards		<u>\$ 831,695,707</u>

NOTE 7 REBATES FROM THE SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)

During fiscal year 2020, the state received cash rebates from infant formula manufacturers in the amount of approximately \$205.0 million on sales of formula to participants in the WIC program (CFDA 10.557), which are netted against total expenditures included in the Schedule. Rebate contracts with infant formula manufacturers are authorized by Code of Federal Regulations, Title 7: Agriculture, Subtitle B, Chapter II, Subchapter A, Part 246.16a as a cost containment measure. Rebates represent a reduction of expenditures previously incurred for WIC food benefit costs. Applying the rebates received to such costs enabled the state to extend program benefits to more participants than could have been serviced this fiscal year in the absence of the rebate contract.

NOTE 8 PROGRAMS NOT SUBJECT TO OMB UNIFORM GUIDANCE

The fund financial statements include federal funding received from certain programs which are not subject to continuing compliance requirements. For the year ended August 31, 2020, the fund financial statements include \$242.4 million of federal funds which are not subject to the continuing compliance requirements of OMB Uniform Guidance, and are not included in the Schedule.

Medicare Part D is not subject to OMB Uniform Guidance. Reimbursements of \$153.3 million were received related to the Medicare Part D program by the administrators of postemployment health care plans. Administrators include the Employees Retirement System of Texas, University of Texas System and Texas A&M University System.

The Build America Bonds are taxable municipal bonds that carry special tax credits and federal subsidies for either the bond issuer or the bondholder. The revenue generated is excluded from the Schedule. The state recognized federal revenues of \$89.1 million related to the program.

**STATE OF TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2020**

NOTE 9 DISASTER GRANTS – PUBLIC ASSISTANCE (CFDA 97.036)

After a Presidential-Declared Disaster, FEMA provides a Public Assistance Grant to reimburse eligible costs associated with repair, replacement, or restoration of disaster-damaged facilities. The federal government reimburses in the form of cost-shared grants which requires state matching funds. For the year ended August 31, 2020, \$44.2 million of approved eligible expenditures that were incurred in a prior year are included on the Schedule.

NOTE 10 DONATED PERSONAL PROTECTIVE EQUIPMENT (PPE) (UNAUDITED)

The state is the recipient of federally donated PPE. The fair market value of the PPE at the time of receipt was \$84.3 million.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL PORTION OF STATEWIDE SINGLE AUDIT REPORT
YEAR ENDED AUGUST 31, 2020**

**STATE OF TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL PORTION OF STATEWIDE SINGLE AUDIT REPORT
YEAR ENDED AUGUST 31, 2020**

Section 2 – Financial Statement Findings

Issued under separate cover. See State Auditor's Office report entitled the State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2020 dated February 23, 2021.

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Special Tests and Provisions – General Program Eligibility

Special Tests and Provisions – Distance Education Program

Federal Program Title: Student Financial Assistance Cluster

Federal Agency: U.S. Department of Education

Award year: July 1, 2019, to June 30, 2020

Award numbers: CFDA 84.063, Federal Pell Grant Program, P063P192333; CFDA 84.268, Federal Direct Student Loans, P268K202333; CFDA 84.033, Federal Work-Study Program, P033A194166; and CFDA 93.925, Scholarships for Health Professions Students from Disadvantaged Backgrounds, 5 T08HP30152-04-00

Statistically valid sample: No and not intended to be a statistically valid sample

Type of finding: Significant Deficiency and Noncompliance

Questioned Costs: \$0

Incarcerated Students

An institution does not qualify as an eligible institution if, for its latest complete award year, more than 25 percent of its regular enrolled students were incarcerated (Title 34, CFR, Section 600.7(a)(1)(iii)), and institutions must demonstrate compliance with that requirement (U.S. Department of Education, *2019-2020 Federal Student Aid Handbook*, Volume 2, Chapter 1).

The University of Houston (University) did not have procedures to identify incarcerated students, and it was not able to demonstrate that less than 25 percent of its enrolled students were incarcerated for the 2019-2020 award year. The University did not have a process to identify incarcerated students to demonstrate that it is meeting the incarcerated student limitation; however, auditors did not note any evidence of incarceration for the 60 students tested. Not having procedures in place to identify incarcerated students increases the risk that the University may not qualify as an eligible institution.

Other Compliance Requirements and Award Numbers

Although the general control weaknesses described below apply to activities allowed or unallowed; cash management; special tests and provisions–verification; special tests and provisions–disbursements to or on behalf of students; special tests and provisions–borrower data transmission and reconciliation (direct loan); special tests and provisions–general program eligibility; and special tests and provisions–distance education program, auditors identified no compliance issues regarding those compliance requirements. The general control weaknesses described below also apply to CFDA 84.033, Federal Work-Study Program, P033A194166 and CFDA 93.925, Scholarships for Health Professions Students from Disadvantaged Backgrounds, award number 5 T08HP30152-04-00.

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

2020 – 126 (Continued)

The University did not always comply with its change management process for information systems. Specifically, for 2 (25 percent) of 8 changes tested, the University did not ensure that its change manager and/or change management committee formally approved the change prior to migrating that change to the production environment, as required by the University's policies and procedures. The University asserted that occurred due to staff oversight, and that informal approvals had been obtained prior to migrating those changes.

Not obtaining approvals in accordance with University policies and procedures increases the risk of unauthorized programming changes being made to critical information systems that the University uses to administer student financial assistance.

Recommendations:

The University should:

- Develop and implement procedures to demonstrate its compliance with the incarcerated student limitation.
- Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

Views of Responsible Officials:

Incarcerated Students

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University has developed and will begin to implement corrective action to further improve the process.

General Controls

We agree that the UHS change management policies and procedures should be consistently followed and the required approvals obtained for changes to university information systems used to administer student financial assistance.

Corrective Action Plan:

Incarcerated Students

The University has identified a process to determine if students in completely online programs are incarcerated to ensure that not more than 25 percent of its regular enrolled students are incarcerated. A short-term, manual process, which would require online-only students who apply for financial aid to confirm they are not incarcerated prior to disbursement of funds, can be implemented rather quickly, but a more accurate, systematic process will require the coordinated efforts of multiple departments across the University and will be pursued as a long-term solution.

Implementation Date: February 26, 2021

Responsible Persons: Scott Moore and Lety Gallegos

General Controls

In both cases documented in the finding, the requestors have been reminded by their supervisors to follow all proper procedures. Additionally, as was noted in the finding, both of these changes were scheduled and discussed with the PeopleSoft Technical and Support committees (separate groups from the CMC committee) and documented via the "schedule of upcoming changes" spreadsheets prior to the changes being implemented. In cases such as these, the CMC committee approval becomes a formality. But, we agree that it is a formality that is part of the procedures and should be completed. Therefore, UIT Management will ensure that all appropriate staff are reminded of the change management policies and procedures and that required approvals are obtained in accordance with the policies.

Implementation Date: January 29, 2021

Responsible Person: Mary Dickerson

2020 – 127**Reporting****Federal Program Title: Student Financial Assistance Cluster****Federal Agency: U.S. Department of Education****Award year: July 1, 2019, to June 30, 2020****Award number: CFDA 84.379, Teacher Education Assistance for College and Higher Education Grants, P379T202333****Statistically valid sample: No and not intended to be a statistically valid sample****Type of finding: Significant Deficiency and Noncompliance****Questioned Costs: \$0**COD Reporting

Institutions must submit Teacher Education Assistance for College and Higher Education (TEACH) Grant disbursement records to the Common Origination and Disbursement (COD) system no later than 15 days after making the disbursement or becoming aware of the need to adjust a previously reported disbursement. Reporting this information helps ensure that institutions have the most accurate information available about students' federal awards and to help prevent an institution from overawarding students (U.S. Department of Education, *2019-2020 Federal Student Aid Handbook*, Volume 3, Chapter 1; and *Federal Register*, Volume 84, Number 212). Certain data elements are required to be reported as part of a student's origination and disbursement record, including the student's Social Security number, Central Processing System (CPS) transaction number, enrollment date, disbursement amount, and disbursement date (*2019-2020 COD Technical Reference*, Volume II). An institution must report the following information for each TEACH Grant recipient: (1) the student's eligibility for a TEACH Grant, (2) the student's TEACH Grant amounts, and (3) the anticipated and actual disbursement date(s) and disbursement amount(s) of the TEACH Grant funds (Title 34, Code of Federal Regulations, Section 686.37(a)).

The University of Houston (University) incorrectly reported origination and/or disbursement information for all 10 (100 percent) TEACH Grant awards it made for the 2019-2020 award year. For all 10 students, the University reported incorrect disbursement dates for one or more disbursements made to the students during the award year. The incorrect disbursement dates ranged from 161 days prior to 8 days after the actual dates the TEACH Grants were disbursed to the students. In addition, the University reported the incorrect enrollment date for 5 of those students and an incorrect CPS transaction number for 2 of those students.

The University also incorrectly reported disbursement amounts for 3 of those students. Specifically:

- For 2 students, the University disbursed the student's TEACH Grant award in two separate payments: a disbursement for the Fall 2019 term and a disbursement for the Spring 2020 term. However, the University incorrectly reported the total amount paid to the student as one disbursement record in COD.
- For one student, the University inaccurately reported the disbursement amount for each term; however, the overall amount reported as disbursed for the 2019-2020 award year was correct.

The University's process is to manually report TEACH Grant awards on COD's website; the incorrect award and disbursement information reported for all 10 students was a result of manual entry errors made during that process. In addition, the University did not have a process to review the manual data entries for accuracy. Not accurately reporting information to the COD system could result in the institution overawarding federal funds.

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

2020 – 127 (Continued)

The University did not always comply with its change management process for information systems. Specifically, for 2 (25 percent) of 8 changes tested, the University did not ensure that its change manager and/or change management committee formally approved the change prior to migrating that change to the production environment, as required by the University's policies and procedures. The University asserted that occurred due to staff oversight, and that informal approvals had been obtained prior to migrating those changes.

Not obtaining approvals in accordance with University policies and procedures increases the risk of unauthorized programming changes being made to critical information systems that the University uses to administer student financial assistance.

Recommendations:

The University should:

- Strengthen its controls to ensure that TEACH Grant origination and disbursement information is reported to COD accurately.
- Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

Views of Responsible Officials:COD Reporting

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University has developed and will begin to implement corrective action to further improve the process.

General Controls

We agree that the UHS change management policies and procedures should be consistently followed and the required approvals obtained for changes to university information systems used to administer student financial assistance.

Corrective Action Plan:COD Reporting

The functional area responsible for processing TEACH Grants underwent a number of staffing changes during the year, including the departure of the assistant director responsible for overseeing the program, resulting in incorrect reporting of enrollment dates. The new assistant director and program coordinator responsible for creating TEACH applications in COD have received thorough training and understand the importance of timely and accurate reporting of the enrollment dates for the program. The University is in the process of re-opening the year to correct the reported dates in COD to ensure the student's enrollment dates are accurate.

Implementation Date: February 12, 2021

Responsible Person: Joshua Trevino

General Controls

In both cases documented in the finding, the requestors have been reminded by their supervisors to follow all proper procedures. Additionally, as was noted in the finding, both of these changes were scheduled and discussed with the PeopleSoft Technical and Support committees (separate groups from the CMC committee) and documented via the "schedule of upcoming changes" spreadsheets prior to the changes being implemented. In cases such as these, the CMC committee approval becomes a formality. But, we agree that it is a formality that is part of the procedures and should be completed. Therefore, UIT Management will ensure that all appropriate staff are reminded of the change management policies and procedures and that required approvals are obtained in accordance with the policies.

Implementation Date: January 29, 2021

Responsible Person: Mary Dickerson

2020 – 128**Special Tests and Provisions – Return of Title IV Funds****Federal Program Title: Student Financial Assistance Cluster****Federal Agency: U.S. Department of Education****Award year: July 1, 2019, to June 30, 2020****Award numbers: CFDA 84.007, Federal Supplemental Educational Opportunity Grants, P007A194166; CFDA 84.063, Federal Pell Grant Program, P063P192333; CFDA 84.268, Federal Direct Student Loans, P268K202333; and CFDA 84.379, Teacher Education Assistance for College and Higher Education Grants, P379T202333****Statistically valid sample: No and not intended to be a statistically valid sample****Type of finding: Significant Deficiency and Noncompliance****Questioned Costs: \$0**Return of Title IV Calculations

When a student who received Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the student began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date (Title 34, Code of Federal Regulations (CFR), Section 668.22(a)(1)). If the total amount of Title IV grant or loan assistance earned by the student is less than the amount that was disbursed to the student or on his/her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs and no additional disbursements may be made to the student for the payment period or period of enrollment (Title 34, CFR, Section 668.22(a)(4)). If the total amount of calculated Title IV grant or loan assistance, or both, that a student earned is greater than the total amount of Title IV grant or loan assistance, or both, that was disbursed to the student, as of the date of the institution's determination that the student withdrew, the difference between those amounts must be treated as a post-withdrawal disbursement in accordance with Title 34, CFR, Section 668.164(j) (Title 34, CFR, Section 668.22(a)(5)).

The amount of earned Title IV grant or loan assistance is calculated by (1) determining the percentage of Title IV grant or loan assistance that the student has earned and (2) applying that percentage to the total amount of Title IV grant or loan assistance that was or could have been disbursed to the student or on his/her behalf for the payment period or period of enrollment as of the student's withdrawal date. Students earn 100 percent of their Title IV grant or loan assistance if their withdrawal date is after the completion of 60 percent of the payment period or period of enrollment. The unearned amount of Title IV grant or loan assistance to be returned is calculated by subtracting the amount of Title IV assistance a student earned from the amount of Title IV assistance that was disbursed to the student or on his/her behalf as of the date of the institution's determination that the student withdrew (Title 34, CFR, Section 668.22(e)). The institution must return the lesser of the total amount of unearned Title IV assistance calculated above or an amount equal to the total institutional charges incurred by the student for the payment period or period of enrollment multiplied by the percentage of Title IV grant or loan assistance not earned by the student. For purposes of this calculation, "institutional charges" are tuition, fees, room and board (if the student contracts with the institution for the room and board), and other educationally related expenses assessed by the institution (Title 34, CFR, Section 668.22(g)). The institutional charges used in the calculation are usually the charges that were initially assessed to the student for the entire payment period or period of enrollment, as applicable. Initial charges may be adjusted only by those changes the institution made prior to the student's withdrawal (for example, for a change in enrollment status unrelated to the withdrawal) (U.S. Department of Education, *2019-2020 Federal Student Aid Handbook*, Volume 5, Chapter 1, page 5-18).

The University of Houston (University) made errors in the Title IV return calculations for 3 (5 percent) of 66 students tested. Specifically, the University made errors in determining the amount of institutional charges to be used in the return calculation for those students. There were no questioned costs as a result of those errors because (1) the University returned more than the required amount, (2) the error did not affect the amount of Title IV grant or loan assistance to be returned, or (3) a return of Title IV funds was not required per Section 3508 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

2020 – 128 (Continued)

Those errors occurred because of manual errors the University made in its calculation; in addition, the University's review of return calculations was not sufficient to identify those errors. Not calculating institutional charges correctly increases the risk that the University will not return the correct amount of Title IV assistance to the U.S. Department of Education or may return funds that students have earned.

In addition, the University did not perform the required Title IV return calculations for 2 (3 percent) of 66 students tested. Specifically:

- For 1 student, the University did not identify that the student withdrew from the Spring 2020 term and had received Title IV assistance for that term. That error occurred because of a staff oversight. After auditors brought the issue to the University's attention, it performed the return calculation and returned Title IV funds as required; therefore, there were no questioned costs.
- For 1 student, the University incorrectly disbursed Title IV assistance for a term in which the student withdrew. Because the student had not completed the University's verification requirements, the student had not received Title IV assistance at the time of withdrawal. As a result, the University did not perform a return calculation. When the student completed the verification requirements, the University incorrectly disbursed Title IV assistance to the student for the term in which the student withdrew, rather than completing a return calculation to determine whether the student was eligible for a post-withdrawal disbursement. After auditors brought the error to the University's attention, it performed a return calculation and returned Title IV funds as required; therefore, there were no questioned costs.

The University did not have sufficient monitoring controls to identify all students requiring a Title IV return calculation. In addition, the University did not have controls to prevent its student information system from disbursing Title IV assistance to withdrawn students.

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

The University did not always comply with its change management process for information systems. Specifically, for 2 (25 percent) of 8 changes tested, the University did not ensure that its change manager and/or change management committee formally approved the change prior to migrating that change to the production environment, as required by the University's policies and procedures. The University asserted that occurred due to staff oversight, and that informal approvals had been obtained prior to migrating those changes.

Not obtaining approvals in accordance with University policies and procedures increases the risk of unauthorized programming changes being made to critical information systems that the University uses to administer student financial assistance.

Recommendations:

The University should:

- Strengthen its controls to ensure that it accurately calculates returns of Title IV funds when required, including review of the variables it uses in those calculations.
- Develop and implement controls to prevent its student information system from disbursing Title IV assistance to withdrawn students prior to performing a return of Title IV funds calculation.
- Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

2020 – 128 (Continued)

Views of Responsible Officials:

Return of Title IV Calculations

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University has developed and will begin to implement corrective action to further improve the process.

General Controls

We agree that the UHS change management policies and procedures should be consistently followed and the required approvals obtained for changes to university information systems used to administer student financial assistance.

Corrective Action Plan:

Return of Title IV Calculations

A new, highly experienced staff member is now sharing responsibilities for processing R2T4 calculations, which is expected to reduce human error and allow for better quality control measures to monitor that R2T4 calculations are being accurately completed. To ensure aid is not incorrectly disbursed to students who have withdrawn, responsible staff have been advised on how to properly package late applicants, as well as to not manually override holds preventing disbursement without first confirming a student's true eligibility.

Implementation Date: December 23, 2020

Responsible Person: Frank Gomez

General Controls

In both cases documented in the finding, the requestors have been reminded by their supervisors to follow all proper procedures. Additionally, as was noted in the finding, both of these changes were scheduled and discussed with the PeopleSoft Technical and Support committees (separate groups from the CMC committee) and documented via the "schedule of upcoming changes" spreadsheets prior to the changes being implemented. In cases such as these, the CMC committee approval becomes a formality. But, we agree that it is a formality that is part of the procedures and should be completed. Therefore, UIT Management will ensure that all appropriate staff are reminded of the change management policies and procedures and that required approvals are obtained in accordance with the policies.

Implementation Date: January 29, 2021

Responsible Person: Mary Dickerson

2020 – 129**Special Tests and Provisions – Enrollment Reporting**

(Prior Audit Issues 2017-134, 2016-131, 2015-124, 2014-140, 2013-165, 13-147, 12-153, 11-154, 10-98, 09-87, 08-74, and 07-58)

Federal Program Title: Student Financial Assistance Cluster

Federal Agency: U.S. Department of Education

Award year: July 1, 2019, to June 30, 2020

Award numbers: CFDA 84.063, Federal Pell Grant Program, P063P192333; and CFDA 84.268, Federal Direct Student Loans, P268K202333

Statistically valid sample: No and not intended to be a statistically valid sample

Type of finding: Significant Deficiency and Noncompliance

Questioned Costs: \$0

Enrollment Reporting

Federal regulations and related guidance governing Title IV student aid programs require schools to report the enrollment of students who receive federal student aid (*National Student Loan Data System (NSLDS) Enrollment Reporting Guide*, November 2019, Chapter 2). Unless an institution expects to submit its next enrollment reporting roster file to the Secretary of the U.S. Department of Education within the next 60 days, it must notify the Secretary within 30 days if it discovers that a Federal Direct Student Loan (Direct Loan) has been made to or on behalf of a student who (1) enrolled at that institution but has ceased to be enrolled on at least a half-time basis; (2) has been accepted for enrollment at that institution but failed to enroll on at least a half-time basis for the period for which the loan was intended; or (3) has changed his or her permanent address (Title 34, Code of Federal Regulations (CFR), Section 685.309(b)). Enrollment reporting roster files also must include Federal Pell Grant-only recipients (Title 34, CFR, Section 690.83(b)(2); and *Dear Colleague Letter*, March 30, 2012 (GEN-12-06)).

Institutions are required to report the campus-level enrollment for the student, including enrollment status and the effective date of that enrollment status. For enrollment-level changes to three-quarter-time, half-time, and less-than-half-time status, the institution must use the effective date that the student dropped to those particular statuses (*NSLDS Enrollment Reporting Guide*, November 2019, Chapter 1 and Appendix C). Institutions also are required to report the program(s) of attendance for the student, including classification of instructional programs (CIP) code, program credential level, program length, program enrollment status, and other data about the program. The program enrollment effective date is the date that the current enrollment status reported for a student was first effective and the program begin date is the date the student first began attending the program being reported. (*NSLDS Enrollment Reporting Guide*, November 2019, Chapters 1 and 4).

The University of Houston (University) uses the services of the National Student Clearinghouse (NSC) to report status changes to NSLDS. Under this arrangement, the University reports all students enrolled and their status to NSC. NSC then identifies any changes in status and reports those changes when required to NSLDS. Additionally, NSC completes the roster file on the University's behalf and communicates status changes to NSLDS, as applicable. Although the University uses the services of NSC, it is still ultimately the University's responsibility to report any changes in student enrollment status accurately and in a timely manner (*NSLDS Enrollment Reporting Guide*, November 2019, Chapter 3).

For 40 (66 percent) of 61 students tested, the University did not report enrollment status changes or did not accurately report campus-level or program-level data elements to NSLDS. For many of the students tested, there were one or more data elements reported incorrectly. Specifically:

- For 27 students, the enrollment effective date was reported incorrectly at the program-level. For enrollment level changes and withdrawals occurring in the Fall 2019 term, the program-level effective date was incorrectly backdated to the first day of the term instead of the actual effective date of the status change.

2020 – 129 (Continued)

- For 19 students, the program begin date was reported incorrectly. The University reported a date related to an administrative action (for example, the date that the student was approved to enroll in the program or the date the student applied for graduation), instead of the first day of the term in which the student actually began attendance in the program. The University asserted that it had correctly reported the program begin dates to NSC; however, the dates were reported incorrectly to NSLDS.
- For 3 students, the University did not report a graduated status to NSLDS. The University asserted that it reported those graduated statuses to NSC; however, those statuses were not reported to NSLDS.
- For 3 students, a withdrawal status was reported incorrectly. For those students, the University (1) reported an incorrect effective date for the withdrawal, (2) did not report the withdrawal status at the program-level, or (3) incorrectly reported the student's status as withdrawn instead of never attended.

For 4 (11 percent) of 35 students tested who received a Direct Loan and ceased to be enrolled on at least a half-time basis or changed their permanent address, the students' enrollment status was not reported to NSLDS in a timely manner. Those four students either withdrew or dropped to less-than-half-time enrollment. The University asserted that it reported those statuses to NSC in a timely manner; however, NSLDS received those statuses between 67 and 69 days after the effective date of the change.

The errors discussed above occurred because the University (1) has not configured its student information system to accurately report student enrollment and program information to NSLDS and (2) did not have a process to ensure that student enrollment and program information reported to NSC was accurately reported to NSLDS in a timely manner. Not reporting student status changes accurately and in a timely manner could affect determinations that guarantors, lenders, and servicers of student loans make related to in-school status, deferments, grace periods, repayments schedules, and whether a borrower will retain or lose the interest subsidy under the 150 percent subsidized Direct Loan limit.

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

The University did not always comply with its change management process for information systems. Specifically, for 2 (25 percent) of 8 changes tested, the University did not ensure that its change manager and/or change management committee formally approved the change prior to migrating that change to the production environment, as required by the University's policies and procedures. The University asserted that occurred due to staff oversight, and that informal approvals had been obtained prior to migrating those changes.

Not obtaining approvals in accordance with University policies and procedures increases the risk of unauthorized programming changes being made to critical information systems that the University uses to administer student financial assistance.

Recommendations:

The University should:

- Develop and implement controls to ensure that campus-level and program-level data elements are reported to NSLDS accurately and in a timely manner.
- Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

2020 – 129 (Continued)

Views of Responsible Officials:

Enrollment Reporting

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University has developed and will begin to implement corrective action to further improve the process.

General Controls

We agree that the UHS change management policies and procedures should be consistently followed and the required approvals obtained for changes to university information systems used to administer student financial assistance.

Corrective Action Plan:

Enrollment Reporting

The Enrollment Report sent to the National Student Clearinghouse (NSC) contains two levels of reporting: Campus Level and Program Level. In fall 2019, UH was using a custom report that did not generate data correctly. This custom report had accurate reporting at the campus level but not at the program level. We identified this issue and moved to the delivered process in spring 2020. The first delivered enrollment report was sent to the NSC on February 3, 2020. I have confirmed that data points for the program begin dates and enrollment status changes are appearing correctly on the delivered enrollment report.

Implementation Date: February 3, 2020

Responsible Person: Rachel Honora

General Controls

In both cases documented in the finding, the requestors have been reminded by their supervisors to follow all proper procedures. Additionally, as was noted in the finding, both of these changes were scheduled and discussed with the PeopleSoft Technical and Support committees (separate groups from the CMC committee) and documented via the "schedule of upcoming changes" spreadsheets prior to the changes being implemented. In cases such as these, the CMC committee approval becomes a formality. But, we agree that it is a formality that is part of the procedures and should be completed. Therefore, UIT Management will ensure that all appropriate staff are reminded of the change management policies and procedures and that required approvals are obtained in accordance with the policies.

Implementation Date: January 29, 2021

Responsible Person: Mary Dickerson

2020 – 130

**Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Matching, Level of Effort, Earmarking
Reporting**

**Federal Program Title: Education Stabilization Fund
Federal Agency: U.S. Department of Education
Award years: See below
Award numbers: See below
Statistically valid sample: No and not intended to be a statistically valid sample
Type of finding: Significant Deficiency and Noncompliance
Questioned costs: \$0**

CFDA No.	Program Name	Award Number	Award Year
84.425E	Higher Education Emergency Relief Fund Student Portion	P425E200642	April 28, 2020, to April 27, 2021
84.425F	Higher Education Emergency Relief Fund Institutional Portion	P425F202865	May 12, 2020, to May 11, 2021
84.425L	Higher Education Emergency Relief Fund Minority Serving Institutions	P425L200374	June 4, 2020, to June 3, 2021

Allowable Costs

Allowable costs charged to federal programs must (1) be necessary and reasonable; (2) conform to any limitations or exclusions set forth in the cost principles or in the federal award; (3) be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-federal entity; (4) be accorded consistent treatment; (5) be determined in accordance with generally accepted accounting principles, (6) not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program; and (7) be adequately documented (Title 2, Code of Federal Regulations (CFR), Section 200.403).

Section 18004(c) of the Coronavirus Aid, Relief, and Economic Security (CARES) Act allows recipients to use up to 50 percent of the funds received for the Institutional Portion of the Higher Education Emergency Relief Fund (HEERF) award to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus so long as such costs do not include payment (1) to contractors for the provision of pre-enrollment recruitment activities, (2) to endowments, or (3) for capital outlays associated with facilities related to athletics, sectarian instruction, or religious worship. Section 18004(a)(2) of the CARES Act allows recipients to use funds received for the Minority Serving Institutions portion of the HEERF award under that section to defray expenses incurred by the recipient, including lost revenue, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings, and payroll (Public Law 116-136).

The University of Houston (University) did not ensure that all costs charged to its Higher Education Emergency Relief Fund (HEERF) awards were allowable. For 6 (14 percent) of 42 transactions tested, the University charged \$3,113,517 to its HEERF awards that was not related to the University's response to the coronavirus. Specifically:

- For one of those transactions, the University was unable to provide evidence that the pre-planned technology improvement project totaling \$39,000 addressed a need directly related to the coronavirus. The University's review process was not sufficient to identify the unallowable cost.

2020 – 130 (Continued)

- For the remaining five transactions, the University charged approximately \$3.1 million in lost revenue related to food service commission revenue and uncollected fees to the Institutional Portion of its HEERF award. The University recorded those transactions prior to October 2020 when the U.S Department of Education clarified its guidance to explain that using the Institutional Portion of the HEERF award to defray revenue losses the institution incurred is not allowable per section 18004(c) of the CARES Act.

After auditors brought the errors related to the 6 transactions discussed above to the University’s attention, it transferred those costs to an institutional account; therefore, there were no questioned costs.

Other Compliance Requirements and Award Number

Although the general control weaknesses described below apply to matching, level of effort, earmarking, and reporting, auditors identified no compliance issues regarding those compliance requirements. The general control weaknesses described below also apply to CFDA 84.425E, Higher Education Emergency Relief Fund Student Portion, award number P425E200642.

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

The University did not always comply with its change management process for information systems. Specifically, for 2 (25 percent) of 8 changes tested, the University did not ensure that its change manager and/or change management committee formally approved the change prior to migrating that change to the production environment, as required by the University’s policies and procedures. The University asserted that occurred due to staff oversight, and that informal approvals had been obtained prior to migrating those changes.

Not obtaining approvals in accordance with University policies and procedures increases the risk of unauthorized programming changes being made to critical information systems that the University uses to administer student financial assistance.

Recommendations:

The University should:

- Ensure that only allowable costs are charged to federal awards.
- Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

Views of Responsible Officials:

The University acknowledges and agrees with the finding and will develop a corrective action plan.

Corrective Action Plan:

The University has drafted guidelines for the oversight of Education Stabilization Funds based on review of guidelines issued to date for the HEERF II funds (which are applicable to HEERF funds unspent as of December 27, 2020). These guidelines include the creation of a list of compliance requirements, regularly checking the Department of Education’s website for updated guidance, establishing a time frame for corrections required by updated or clarified guidance, identification of allowable costs and time frames, establishment of documentation and approval processes for all uses of funds, and reconciliation processes. This guideline will be finalized once open questions regarding the HEERF II funding are addressed by the Department of Education.

Implementation Date: August 1, 2021

Responsible Person: Karin Livingston, AVC/AVP Finance, University of Houston

2020 – 130 (Continued)

We agree that the UHS change management policies and procedures should be consistently followed and the required approvals obtained for changes to university information systems used to administer student financial assistance. In both cases documented in the finding, the requestors have been reminded by their supervisors to follow all proper procedures. Additionally, as was noted in the finding, both of these changes were scheduled and discussed with the PeopleSoft Technical and Support committees (separate groups from the CMC committee) and documented via the "schedule of upcoming changes" spreadsheets prior to the changes being implemented. In cases such as these, the CMC committee approval becomes a formality. But, we agree that it is a formality that is part of the procedures and should be completed. Therefore, UIT Management will ensure that all appropriate staff are reminded of the change management policies and procedures and that required approvals are obtained in accordance with the policies.

Implementation Date: January 29, 2021

Responsible Person: Mary Dickerson, Assistant Vice President/Vice Chancellor and CIO, University of Houston/University of Houston System

2020 – 131**Period of Performance**

Federal Program Title: Education Stabilization Fund

Federal Agency: U.S. Department of Education

Award year: June 4, 2020, to June 3, 2021

Award number: CFDA 84.425L, Higher Education Emergency Relief Fund Minority Serving Institutions, P425L200374

Statistically valid sample: No and not intended to be a statistically valid sample

Type of finding: Significant Deficiency and Noncompliance

Questioned costs: \$0

Period of Performance

A recipient may charge to a federal award only allowable costs incurred during the period of performance and any costs incurred before the federal award that were authorized by the federal awarding agency or pass-through entity (Title 2, Code of Federal Regulations (CFR), Section 200.309).

Pre-award costs are those incurred prior to the effective date of the federal award or subaward directly pursuant to the negotiation and in anticipation of the federal award for which such costs are necessary for efficient and timely performance of the scope of work. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the federal award and only with the written approval of the federal awarding agency (Title 2, CFR, 200.458). Pre-award costs incurred on or after March 13, 2020, the date of the Proclamation of National Emergency, are approved per the Recipient's Funding Certification and Agreement for the Institutional Portion of the Higher Education Emergency Relief Fund (HEERF), as well as for the Minority Serving Institutions portion of the funding (Public Law 116-136).

The University of Houston (University) did not ensure that all costs charged to its HEERF awards were incurred within the period of performance. Specifically, for 8 (19 percent) of 42 expenditures tested, the University incurred the cost between February 12, 2020, and March 12, 2020. The University charged those expenditures totaling \$5,035 to the Minority Serving Institutions portion of its HEERF award. The University had a process to identify costs related to its response to the coronavirus and to transfer those costs to its HEERF awards; however, the University's review process for the transfer of those costs was not sufficient to identify that those expenditures were outside of the period of performance.

2020 – 131 (Continued)

After auditors brought those errors to the University's attention, it transferred those expenditures to an institutional account; therefore, there were no questioned costs.

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

The University did not always comply with its change management process for information systems. Specifically, for 2 (25 percent) of 8 changes tested, the University did not ensure that its change manager and/or change management committee formally approved the change prior to migrating that change to the production environment, as required by the University's policies and procedures. The University asserted that occurred due to staff oversight, and that informal approvals had been obtained prior to migrating those changes.

Not obtaining approvals in accordance with University policies and procedures increases the risk of unauthorized programming changes being made to critical information systems that the University uses to administer student financial assistance.

Recommendations:

The University should:

- Ensure that all costs it charges to federal awards are incurred within the period of performance.
- Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

Views of Responsible Officials:

The University acknowledges and agrees with the finding and will develop a corrective action plan.

Corrective Action Plan:

The University has drafted guidelines for the oversight of Education Stabilization Funds based on review of guidelines issued to date for the HEERF II funds (which are applicable to HEERF funds unspent as of December 27, 2020). These guidelines include the creation of a list of compliance requirements, regularly checking the Department of Education's website for updated guidance, establishing a time frame for corrections required by updated or clarified guidance, identification of allowable costs and time frames, establishment of documentation and approval processes for all uses of funds, and reconciliation processes. This guideline will be finalized once open questions regarding the HEERF II funding are addressed by the Department of Education.

Implementation Date: August 1, 2021

Responsible Person: Karin Livingston, AVC/AVP Finance, University of Houston

We agree that the UHS change management policies and procedures should be consistently followed and the required approvals obtained for changes to university information systems used to administer student financial assistance. In both cases documented in the finding, the requestors have been reminded by their supervisors to follow all proper procedures. Additionally, as was noted in the finding, both of these changes were scheduled and discussed with the PeopleSoft Technical and Support committees (separate groups from the CMC committee) and documented via the "schedule of upcoming changes" spreadsheets prior to the changes being implemented. In cases such as these, the CMC committee approval becomes a formality. But, we agree that it is a formality that is part of the procedures and should be completed. Therefore, UIT Management will ensure that all appropriate staff are reminded of the change management policies and procedures and that required approvals are obtained in accordance with the policies.

Implementation Date: January 29, 2021

Responsible Person: Mary Dickerson, Assistant Vice President/Vice Chancellor and CIO, University of Houston/University of Houston System

University of Houston – Clear Lake

2020 – 132

Eligibility

Special Tests and Provisions – Institutional Eligibility

Activities Allowed or Unallowed

Cash Management

Reporting

Special Tests and Provisions – Disbursements to or on Behalf of Students

Special Tests and Provisions – Borrower Data Transmission and Reconciliation (Direct Loan)

Special Tests and Provisions – General Program Eligibility

Special Tests and Provisions – Distance Education Program

Federal Program Title: Student Financial Assistance Cluster

Federal Agency: U.S. Department of Education

Award year: July 1, 2019, to June 30, 2020

Award numbers: CFDA 84.007, Federal Supplemental Educational Opportunity Grants, P007A194160; CFDA 84.033, Federal Work-Study Program, P033A194160; CFDA 84.063, Federal Pell Grant Program, P063P193465; CFDA 84.268, Federal Direct Student Loans, P268K203465; and CFDA 84.379, Teacher Education Assistance for College and Higher Education Grants, P379T203465

Statistically valid sample: No and not intended to be a statistically valid sample

Type of finding: Significant Deficiency and Noncompliance

Questioned Costs: \$135,318

Cost of Attendance

The determination of the federal student financial assistance award amount is based on financial need. Financial need is defined as a student's cost of attendance (COA) minus their expected family contribution (EFC) (Title 20, United States Code (USC), Chapter 28, Subchapter IV, Section 1087kk). COA refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." An institution also may include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, USC, Chapter 28, Section 1087ll).

For Title IV programs, the EFC is the amount a student and his/her family are expected to pay for educational expenses, and it is computed by the federal central processor and included on the student's Institutional Student Information Record (ISIR) provided to the institution. An overaward exists when a student's financial aid exceeds his/her need. Therefore, awards must be coordinated among the various programs and with other federal and non-federal assistance to ensure that total assistance is not awarded in excess of the student's financial need (U.S. Department of Education, *2019-2020 Federal Student Aid Handbook*, Volume 4, Chapter 3; and Title 34, Code of Federal Regulations (CFR), Sections 668.2, 673.5, and 685.301).

The University of Houston – Clear Lake (University) established different COA budgets for each term based on a student's classification (undergraduate or graduate); residency (in-state or out-of-state); living status (on-campus, off-campus, or living with parents); and enrollment level (full-time, three-quarter-time, half-time, or less-than-half-time).

For 27 (42 percent) of 64 students tested, the University incorrectly calculated the COA. Those errors occurred because the University did not correctly load the budget components for the Summer 2020 term into its student information system. This issue would have affected all students who enrolled in the Summer 2020 term. Auditors did not identify students during testing who were overawarded financial assistance as a result of the COA issue; therefore, there are no questioned costs. However, incorrectly establishing COA budgets increases the risk of overawarding or underawarding financial assistance to students.

2020 – 132 (Continued)Federal Pell Grant

When awarding Federal Pell Grant assistance to students, institutions use the payment and disbursement schedules provided each year by the U.S. Department of Education for determining award amounts (Title 34, CFR, Section 690.62). Those schedules provide the maximum annual amount a student would receive for a full academic year for a given enrollment status, EFC, and COA. There are separate schedules for three-quarter-time, half-time, and less-than-half-time students (U.S. Department of Education, *2019-2020 Federal Student Aid Handbook*, Volume 3, Chapter 3, page 3-56; and Title 34, CFR, Section 690.63(b)).

For 1 (3 percent) of 36 students tested who received Federal Pell Grants, the University did not award the correct amount of Federal Pell Grant assistance. Specifically, the University awarded the student an amount that was less than the amount the student was eligible to receive. That occurred because the University awarded Federal Pell Grants to the student based on three-quarter-time enrollment, instead of the student's actual enrollment (full-time). As a result, the student was underawarded \$774 in Federal Pell Grant assistance.

Federal Supplemental Educational Opportunity Grants (FSEOG)

The FSEOG program provides grants to eligible undergraduate students. Institutions are required to award FSEOG first to Federal Pell Grant recipients who have the lowest expected family contribution (EFC). If an institution has FSEOG funds remaining after giving FSEOG awards to all Federal Pell Grant recipients, it can then award the remaining FSEOG funds to eligible students with the lowest EFCs who did not receive Federal Pell Grants (Title 34, CFR, Section 676.10).

Based on a review of the full population of student financial assistance recipients, the University awarded \$7,000 in FSEOG assistance to 5 students who were not eligible for that assistance. The University had not awarded FSEOG assistance to all other Federal Pell Grant recipients before awarding FSEOG assistance to those 5 students. Those 5 students had already received their lifetime eligibility amount for Federal Pell Grants; therefore, they were no longer eligible to receive Federal Pell Grants. After auditors brought those errors to the University's attention, it corrected the FSEOG awards; therefore, there were no questioned costs.

Eligibility and Certification Approval Report

Each institution's most recent *Eligibility and Certification Approval Report* (ECAR) lists the institution's main campus and any additional approved locations. For any other locations at which an institution offers 50 percent or more of an eligible program, the institution must notify the U.S. Department of Education of that location if the institution wants to disburse Title IV funds to students enrolled at that location (Title 34, CFR, Section 600.21(a)(3)). An institution may not disburse Title IV funds to students at that location before it reports to the U.S. Department of Education about that location (Title 34, CFR, Section 600.21(d)).

The University's most recent ECAR did not include all additional locations. Specifically, the University offers eligible programs for incarcerated students at three of the state's prison units. The University reported one of those locations on its ECAR; however, the University did not include the other two locations on its most recent ECAR. That error occurred because the University did not adequately review its ECAR to ensure that it reported all locations at which it offered more than 50 percent of an eligible program. The University disbursed \$135,318 in federal student financial assistance to 27 students at the unreported locations during the 2019-2020 award year. Those disbursements were associated with CFDA 84.063, Federal Pell Grant Program, award number P063P193465, and they were considered questioned costs.

Other Compliance Requirements

Although the general control weaknesses described below apply to activities allowed or unallowed; cash management; reporting; special tests and provisions—disbursements to or on behalf of students, special tests and provisions—borrower data transmission and reconciliation (direct loan), special tests and provisions—general program eligibility, and special tests and provisions—distance education program, auditors identified no compliance issues regarding those compliance requirements.

2020 – 132 (Continued)

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

The University did not always comply with its change management process for information systems. Specifically, for 2 (25 percent) of 8 changes tested, the University did not ensure that its change manager and/or change management committee formally approved the change prior to migrating that change to the production environment, as required by the University's policies and procedures. The University asserted that occurred due to staff oversight, and that informal approvals had been obtained prior to migrating those changes.

Not obtaining approvals in accordance with University policies and procedures increases the risk of unauthorized programming changes being made to critical information systems that the University uses to administer student financial assistance.

Recommendations:

The University should:

- Strengthen its controls to ensure that it correctly calculates students' COA budgets in accordance with its process.
- Award students the correct amount of Federal Pell Grant assistance for an award year.
- Award FSEOG assistance only to eligible students.
- Update its ECAR as required, and ensure that it does not disburse financial assistance to students at locations that are not on its ECAR.
- Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

Views of Responsible Officials:

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective action to further improve the processes.

Corrective Action Plan:

Recommendation: Strengthen its controls to ensure that it correctly calculates students' COA budgets in accordance with its process.

The department has implemented multi-level review to ensure accuracy and compliance. Upper-level management within Financial Aid will review information input for each budget item, as well as perform testing to ensure accurate values and computations are established within Peoplesoft.

Implementation Date: April 2021

Responsible Person: Holly Nolan

Recommendation: Award students the correct amount of Federal Pell Grant assistance for an award year.

Office of Financial Aid will review a Pell Chart Report available in PeopleSoft as an additional review of all Pell awards. This will provide additional support to a query to find errors in Federal Pell Grant amounts.

Implementation Date: July 2021

Responsible Person: Holly Nolan

2020 – 132 (Continued)

Recommendation: Award FSEOG assistance only to eligible students.

Students were awarded FSEOG to Pell eligible students that had reached their LEU and therefore not awarded Federal Pell Grant in the same term as FSEOG. A query has been created to identify students in this scenario to remove the FSEOG. The query will be reviewed at the beginning of each term.

Implementation Date: March 2021

Responsible Person: Holly Nolan

Recommendation: Update its ECAR as required, and ensure that it does not disburse financial assistance to students at locations that are not on its ECAR.

The current ECAR has been reviewed on multiple levels and updates to correct locations submitted to the Department of Education. UHCL will create a Business Process to ensure departments communicate with the Office of Student Financial Aid when any changes are needed and are educated about the changes that require updates.

Implementation Date: May 2021

Responsible Person: Holly Nolan

Recommendation: Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

We agree that the UHS change management policies and procedures should be consistently followed and the required approvals obtained for changes to university information systems used to administer student financial assistance.

In both cases documented in the finding, the requestors have been reminded by their supervisors to follow all proper procedures. Additionally, as was noted in the finding, both of these changes were scheduled and discussed with the PeopleSoft Technical and Support committees (separate groups from the CMC committee) and documented via the "schedule of upcoming changes" spreadsheets prior to the changes being implemented. In cases such as these, the CMC committee approval becomes a formality. But, we agree that it is a formality that is part of the procedures and should be completed. Therefore, UIT Management will ensure that all appropriate staff are reminded of the change management policies and procedures and that required approvals are obtained in accordance with the policies.

Implementation Date: January 2021

Responsible Person: Mary Dickerson

2020 – 133**Special Tests and Provisions – Verification****Federal Program Title: Student Financial Assistance Cluster****Federal Agency: U.S. Department of Education****Award year: July 1, 2019, to June 30, 2020****Award number: CFDA 84.007, Federal Supplemental Educational Opportunity Grants, P007A194160; CFDA 84.033, Federal Work-Study Program, P033A194160; CFDA 84.063, Federal Pell Grant Program, P063P193465; CFDA 84.268, Federal Direct Student Loans, P268K203465; and CFDA 84.379, Teacher Education Assistance for College and Higher Education Grants, P379T203465****Statistically valid sample: No and not intended to be a statistically valid sample****Type of finding: Significant Deficiency and Noncompliance****Questioned Costs: \$0**Verification of Applications

For each applicant whose Free Application for Federal Student Aid (FAFSA) is selected for verification by the Secretary of the U.S. Department of Education, an institution must verify all of the applicable items, which include household size, number of household members who are in college, adjusted gross income (AGI), U.S. income taxes paid, education credits, individual retirement account deductions, high school completion, the student's identity, and the statement of educational purpose (Title 34, Code of Federal Regulations (CFR), Sections 668.54 and 668.56; and *Federal Register*, Volume 83, Number 60).

When the verification of an applicant's eligibility results in any change to a non-dollar item or a change to a single dollar item of \$25 or more from the applicant's FAFSA, the institution must submit a correction to the U.S. Department of Education and adjust the applicant's subsidized financial aid awards on the basis of the expected family contribution (EFC) on the corrected Institutional Student Information Record (ISIR) (Title 34, CFR, Section 668.59).

For 2 (3 percent) of 62 students tested, the University of Houston – Clear Lake (University) did not accurately verify certain required items on the students' FAFSAs. For one of those students, the University did not accurately verify the student's U.S. income taxes paid. For the other student, the University did not accurately verify the parent's AGI. Those errors occurred because of manual errors the University made during its verification process.

When auditors brought those errors to the University's attention, the University made corrections to the students' ISIRs. Although those errors caused the EFC to be incorrect for both students, there was no impact on the amount of student financial assistance the student received; therefore, there were no questioned costs. However, not verifying FAFSA information accurately could result in the University overawarding or underawarding student financial assistance.

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

The University did not always comply with its change management process for information systems. Specifically, for 2 (25 percent) of 8 changes tested, the University did not ensure that its change manager and/or change management committee formally approved the change prior to migrating that change to the production environment, as required by the University's policies and procedures. The University asserted that occurred due to staff oversight, and that informal approvals had been obtained prior to migrating those changes.

Not obtaining approvals in accordance with University policies and procedures increases the risk of unauthorized programming changes being made to critical information systems that the University uses to administer student financial assistance.

2020 – 133 (Continued)

Recommendations:

The University should:

- Strengthen its controls to ensure that it accurately verifies all required FAFSA information for students selected for verification.
- Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

Views of Responsible Officials:

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective action to further improve the processes.

Corrective Action Plan:

Recommendation: Strengthen its controls to ensure that it accurately verifies all required FAFSA information for students selected for verification.

Additional training and webinars will be provided to Financial Aid staff on required documentation and verification procedures. Sample files will be selected for upper-level management to review for accuracy. Any issues will be resolved in a timely manner if identified.

Implementation Date: May 2021

Responsible Person: Holly Nolan

Recommendation: Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

We agree that the UHS change management policies and procedures should be consistently followed and the required approvals obtained for changes to university information systems used to administer student financial assistance.

In both cases documented in the finding, the requestors have been reminded by their supervisors to follow all proper procedures. Additionally, as was noted in the finding, both of these changes were scheduled and discussed with the PeopleSoft Technical and Support committees (separate groups from the CMC committee) and documented via the "schedule of upcoming changes" spreadsheets prior to the changes being implemented. In cases such as these, the CMC committee approval becomes a formality. But, we agree that it is a formality that is part of the procedures and should be completed. Therefore, UIT Management will ensure that all appropriate staff are reminded of the change management policies and procedures and that required approvals are obtained in accordance with the policies.

Implementation Date: January 2021

Responsible Person: Mary Dickerson

2020 – 134**Special Tests and Provisions – Return of Title IV Funds****Federal Program Title: Student Financial Assistance Cluster****Federal Agency: U.S. Department of Education****Award year: July 1, 2019, to June 30, 2020****Award numbers: CFDA 84.007, Federal Supplemental Educational Opportunity Grants, P007A194160; CFDA 84.063, Federal Pell Grant Program, P063P193465; CFDA 84.268, Federal Direct Student Loans, P268K203465; and CFDA 84.379, Teacher Education Assistance for College and Higher Education Grants, P379T203465****Statistically valid sample: No and not intended to be a statistically valid sample****Type of finding: Significant Deficiency and Noncompliance****Questioned Costs: \$0**Return of Title IV Calculations

When a student who received Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the student began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date (Title 34, Code of Federal Regulations (CFR), Section 668.22(a)(1)). If the total amount of Title IV grant or loan assistance earned by the student is less than the amount that was disbursed to the student or on his/her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs and no additional disbursements may be made to the student for the payment period or period of enrollment (Title 34, CFR, Section 668.22(a)(4)).

The amount of earned Title IV grant or loan assistance is calculated by (1) determining the percentage of Title IV grant or loan assistance that the student has earned and (2) applying that percentage to the total amount of Title IV grant or loan assistance that was or could have been disbursed to the student or on his/her behalf for the payment period or period of enrollment as of the student's withdrawal date. Students earn 100 percent of their Title IV grant or loan assistance if their withdrawal date is after the completion of 60 percent of the payment period or period of enrollment. The unearned amount of Title IV grant or loan assistance to be returned is calculated by subtracting the amount of Title IV assistance a student earned from the amount of Title IV assistance that was disbursed to the student or on his/her behalf as of the date of the institution's determination that the student withdrew (Title 34, CFR, Section 668.22(e)). The institution must return the lesser of the total amount of unearned Title IV assistance calculated above or an amount equal to the total institutional charges incurred by the student for the payment period or period of enrollment multiplied by the percentage of Title IV grant or loan assistance not earned by the student. For purposes of this calculation, "institutional charges" are tuition, fees, room and board (if the student contracts with the institution for the room and board), and other educationally related expenses assessed by the institution (Title 34, CFR, Section 668.22(g)). The institutional charges used in the calculation are usually the charges that were initially assessed to the student for the entire payment period or period of enrollment, as applicable. Initial charges may be adjusted only by those changes the institution made prior to the student's withdrawal (for example, for a change in enrollment status unrelated to the withdrawal) (U.S. Department of Education, *2019-2020 Federal Student Aid Handbook*, Volume 5, Chapter 1, page 5-18).

The total number of calendar days in a payment period or period of enrollment includes all days within the payment period or period of enrollment that the student was scheduled to complete, excluding scheduled breaks of at least five consecutive days. Scheduled breaks of at least five consecutive days are also excluded from the number of calendar days the student completed in that period (Title 34, CFR, Section 668.22(f)(2)(i)).

2020 – 134 (Continued)

For 13 (48 percent) of 27 students tested, the University of Houston – Clear Lake (University) incorrectly calculated the amount of Title IV funds to be returned or returned the incorrect amount of funds. For a majority of the students discussed below, there were multiple errors in the return calculation. Specifically:

- For 10 students, the University incorrectly determined the total number of days in the payment period for the Spring 2020 or Summer 2020 terms. Specifically, the University used start and end dates for the payment period that did not correspond to the actual start and end dates for the specific parts of the term that each student was scheduled to complete. Although the amount of unearned Title IV assistance calculated for those students was incorrect, funds were not required to be returned per Section 3508 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act; therefore, there were no questioned costs.
- For five students, the University did not exclude any break days from the Spring 2020 term as required. Those errors occurred because the University did not load the break days into its student information system when setting up the payment period; therefore, this issue would have affected all students who withdrew from the Spring 2020 term. Although the amount of unearned Title IV assistance calculated for those five students was incorrect, there were no questioned costs because (1) the University returned more funds than required or (2) funds were not required to be returned per Section 3508 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.
- For three students, the University made a manual error in determining the amount of institutional charges to be used in the return calculation. For two of those students who withdrew from the Summer 2020 term, a return of Title IV funds was not required per Section 3508 of the CARES Act; therefore, there are no questioned costs. However, for one student who withdrew from the Fall 2019 term, the University returned \$949 less than it should have returned. After auditors brought the error to the University's attention, it returned those funds to the U.S. Department of Education; therefore, there were no questioned costs.
- For one student, the University returned the incorrect amount of Title IV funds due to a manual entry error. Specifically, the University returned \$36 less than it should have returned. After auditors brought the error to the University's attention, it returned those funds to the U.S. Department of Education; therefore, there were no questioned costs.
- For one student, the University incorrectly included a loan in the return calculation that had not been originated at the time the student withdrew. As a result, the amount of unearned Title IV assistance calculated for that student was incorrect. However, a return of Title IV funds was not required per Section 3508 of the CARES Act; therefore, there were no questioned costs.

In addition, for 6 (17 percent) of 36 students tested who did not have a return of Title IV funds made, the University did not perform a return calculation as required. Specifically:

- For five students who withdrew from the Spring 2020 or Summer 2020 terms, the University did not perform a return calculation as required. After auditors brought those errors to the University's attention, it performed return calculations as required. However, returns of Title IV funds were not required per Section 3508 of the CARES Act; therefore, there were no questioned costs.
- For one student, the University did not perform a return calculation and return funds as required due to a staff oversight. That student did not begin attendance in the Spring 2020 term; therefore, the student did not earn any Title IV funds for that term. After auditors brought the error to the University's attention, it returned the \$12,218 in Federal Direct Student Loans for which the student was not eligible to the U.S. Department of Education; therefore, there were no questioned costs.

The University did not have an effective monitoring process to identify those errors. Having a process that does not consistently calculate and return the correct amount of Title IV funds increases the risk that the University could return less Title IV funds than it is required to return.

2020 – 134 (Continued)Returning Funds in the Required Order

Unearned funds returned by the institution or the student must be credited to outstanding balances on Title IV loans made to the student or on behalf of the student for the payment period or period of enrollment for which a return of funds is required. Those funds must be credited to outstanding balances for the payment period or period of enrollment for which a return of funds is required in the following order: (1) Unsubsidized Federal Direct Loans; (2) Subsidized Federal Direct Loans; and (3) Federal Direct PLUS received on behalf of the student. If unearned funds remain to be returned after repayment of all outstanding loan amounts, the remaining excess must be credited to any amount awarded for the payment period or period of enrollment for which a return of funds is required in the following order: (1) Federal Pell Grants; (2) FSEOG Program aid; and (3) TEACH Grants (Title 34, CFR, Section 668.22(i)).

For 2 (10 percent) of 20 students tested who withdrew and required a return of Title IV funds, the University did not return the Title IV funds in the required order. Specifically:

- For one student, the University incorrectly returned the student's Federal Pell Grant and did not return any of the student's unsubsidized or subsidized Federal Direct Student Loan funds as required. As a result, the student was overawarded \$3,030 in Federal Direct Student Loan funds. After auditors brought the error to the University's attention, it returned those funds to the U.S. Department of Education; therefore, there were no questioned costs.
- For one student, the University correctly returned the student's unsubsidized Federal Direct Student Loan amount; however, it incorrectly returned \$34 from the student's Federal Pell Grant instead of returning that amount from the student's subsidized Federal Direct Student Loan. After auditors brought the error to the University's attention, it returned the \$34 in Federal Direct Student Loans to the U.S. Department of Education; therefore, there were no questioned costs.

Those errors occurred because the University (1) made manual errors in interpreting the return calculation for those students and should have returned the students' loan funds prior to returning Federal Pell Grant funds and (2) did not have an effective monitoring process to identify those errors.

Timeliness of Returns

An institution must return the amount of Title IV funds for which it is responsible as soon as possible but no later than 45 days after the date of the institution's determination that the student withdrew (Title 34, CFR, Section 668.22(j)).

For 2 (10 percent) of 20 students tested who withdrew and required a return of Title IV funds, the University did not return the funds within the required time frame. Specifically, for those students, the University determined the withdrawal dates and performed the return calculations; however, it did not return the Title IV funds within the required 45-day time frame due to an oversight in processing the return of those funds. The University returned the funds for those two students 62 and 208 days after it had determined that those students had withdrawn. Not making returns within required time frames reduces the information available to the U.S. Department of Education for its program management.

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

The University did not always comply with its change management process for information systems. Specifically, for 2 (25 percent) of 8 changes tested, the University did not ensure that its change manager and/or change management committee formally approved the change prior to migrating that change to the production environment, as required by the University's policies and procedures. The University asserted that occurred due to staff oversight, and that informal approvals had been obtained prior to migrating those changes.

2020 – 134 (Continued)

Not obtaining approvals in accordance with University policies and procedures increases the risk of unauthorized programming changes being made to critical information systems that the University uses to administer student financial assistance.

Recommendations:

The University should:

- Strengthen its controls to ensure that it accurately calculates returns of Title IV funds when required, including review of the variables it uses in those calculations.
- Return Title IV funds in the order required by the U.S. Department of Education.
- Strengthen its monitoring controls to ensure that it detects and corrects errors in return of Title IV calculations and returns Title IV funds within required time frames.
- Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

Views of Responsible Officials:

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective action to further improve the processes.

Corrective Action Plan:

Recommendation: Strengthen its controls to ensure that it accurately calculates returns of Title IV funds when required, including review of the variables it uses in those calculations.

Peoplesoft system is being reviewed to update some functions to automatically calculate certain variables of the Return to Title IV worksheet. The institutional charges will automatically calculate, eliminating manual processing errors. Days and number of days will be checked prior to term by upper-level management to ensure accurate calculations. Business Process documents will be reviewed and updated accordingly to serve as how-to-guide for staff.

Implementation Date: May 2021

Responsible Person: Holly Nolan

Recommendation: Return Title IV funds in the order required by the U.S. Department of Education.

Training will be provided to staff for Return to Title IV processes and procedures. Any additional webinars or NASFAA credential testing will be offered to update skills in processing returns. A new Assistant Director has been hired to process Return to Title IV. She will be trained and returns reviewed and monitored for accuracy by upper-level administration.

Implementation Date: May 2021

Responsible Person: Holly Nolan

Recommendation: Strengthen its monitoring controls to ensure that it detects and corrects errors in return of Title IV calculations and returns Title IV funds within required time frames.

A new Assistant Director has been hired to process calculations; upper-level management will review completed calculations to ensure accuracy. Any issues that come about will be review and discussed with the staff to ensure understanding and on-going compliance. Reports will be reviewed to ensure timeliness of the returns.

Implementation Date: March 2021

Responsible Person: Holly Nolan

2020 – 134 (Continued)

Recommendation: Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

We agree that the UHS change management policies and procedures should be consistently followed and the required approvals obtained for changes to university information systems used to administer student financial assistance.

In both cases documented in the finding, the requestors have been reminded by their supervisors to follow all proper procedures. Additionally, as was noted in the finding, both of these changes were scheduled and discussed with the PeopleSoft Technical and Support committees (separate groups from the CMC committee) and documented via the "schedule of upcoming changes" spreadsheets prior to the changes being implemented. In cases such as these, the CMC committee approval becomes a formality. But, we agree that it is a formality that is part of the procedures and should be completed. Therefore, UIT Management will ensure that all appropriate staff are reminded of the change management policies and procedures and that required approvals are obtained in accordance with the policies.

Implementation Date: January 2021

Responsible Person: Mary Dickerson

2020 – 135**Special Tests and Provisions – Enrollment Reporting**

Federal Program Title: Student Financial Assistance Cluster

Federal Agency: U.S. Department of Education

Award year: July 1, 2019, to June 30, 2020

Award numbers: CFDA 84.063, Federal Pell Grant Program, P063P193465; and CFDA 84.268, Federal Direct Student Loans, P268K203465

Statistically valid sample: No and not intended to be a statistically valid sample

Type of finding: Significant Deficiency and Noncompliance

Questioned Costs: \$0

Enrollment Reporting

Federal regulations and related guidance governing Title IV student aid programs require schools to report the enrollment of students who receive federal student aid (*National Student Loan Data System (NSLDS) Enrollment Reporting Guide*, November 2019, Chapter 2). Unless an institution expects to submit its next enrollment reporting roster file to the Secretary of the U.S. Department of Education within the next 60 days, it must notify the Secretary within 30 days if it discovers that a Federal Direct Student Loan (Direct Loan) has been made to or on behalf of a student who (1) enrolled at that institution but has ceased to be enrolled on at least a half-time basis; (2) has been accepted for enrollment at that institution but failed to enroll on at least a half-time basis for the period for which the loan was intended; or (3) has changed his or her permanent address (Title 34, Code of Federal Regulations (CFR), Section 685.309(b)). Enrollment reporting roster files must also include Federal Pell Grant-only recipients (Title 34, CFR, Section 690.83(b)(2); and *Dear Colleague Letter*, March 30, 2012 (GEN-12-06)).

2020 – 135 (Continued)

Institutions are required to report the campus-level enrollment for the student, including enrollment status and the effective date of that enrollment status. For enrollment level changes to three-quarter-time, half-time, and less-than-half-time status, the institution must use the effective date that the student dropped to those particular statuses (*NSLDS Enrollment Reporting Guide*, November 2019, Chapter 1 and Appendix C). Institutions also are required to report the program(s) of attendance for the student, including classification of instructional programs (CIP) code, program credential level, program length, program enrollment status, and other data about the program. The program enrollment effective date is the date that the current enrollment status reported for a student was first effective and the program begin date is the date the student first began attending the program being reported (*NSLDS Enrollment Reporting Guide*, November 2019, Chapters 1 and 4).

The University of Houston – Clear Lake (University) uses the services of the National Student Clearinghouse (NSC) to report status changes to NSLDS. Under this arrangement, the University reports all students enrolled and their status to NSC. NSC then identifies any changes in status and reports those changes when required to NSLDS. Additionally, NSC completes the roster file on the University's behalf and communicates status changes to NSLDS, as applicable. Although the University uses the services of NSC, it is still ultimately the University's responsibility to report any changes in student enrollment status accurately and in a timely manner (*NSLDS Enrollment Reporting Guide*, November 2019, Chapter 3).

For 22 (35 percent) of 62 students tested, the University did not report the enrollment status change or did not accurately report program-level data elements to NSLDS. Specifically:

- For 13 students, the program begin date was reported incorrectly. The University reported the date that the students declared their majors or changed their academic programs, instead of the first day of the term in which the student actually began attendance in the program. Those errors were caused by issues related to the configuration of the enrollment reporting processes in the University's student information system.
- For 6 students, the enrollment effective date was reported correctly to NSLDS at the campus-level; however, a different enrollment effective date was incorrectly reported at the program-level for the same enrollment status. The effective date reported at the program-level should be the same date reported at the campus-level because those dates reflect the same enrollment status change. The University did not have a process to ensure that information was reported accurately at the program-level.
- For 2 students, both the program begin date and the program-level enrollment status effective date were reported incorrectly because of the issues discussed above.
- For 1 student, the University did not report the student's withdrawal status to NSLDS. That student unofficially withdrew from the Spring 2020 term. The University did not report any students who were determined to have unofficially withdrawn from the Spring 2020 term. The University asserted that it did not report the student withdrawals because it had been waiting on guidance for reporting requirements under Section 3508 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which waived the statutory requirement for institutions to return Title IV funds as the result of student withdrawals related to a qualifying emergency. The CARES Act did not waive the requirement for institutions to report student withdrawals to NSLDS.

Not reporting student enrollment and program information accurately and in a timely manner could affect determinations that guarantors, lenders, and servicers of student loans make related to in-school status, deferments, grace periods, repayment schedules, and whether a borrower will retain or lose the interest subsidy under the 150 percent subsidized Direct Loan limit.

General Controls

Institutions must establish and maintain effective internal control over federal awards that provides reasonable assurance that the institution is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award (Title 2, CFR, Section 200.303).

2020 – 135 (Continued)

The University did not always comply with its change management process for information systems. Specifically, for 2 (25 percent) of 8 changes tested, the University did not ensure that its change manager and/or change management committee formally approved the change prior to migrating that change to the production environment, as required by the University's policies and procedures. The University asserted that occurred due to staff oversight, and that informal approvals had been obtained prior to migrating those changes.

Not obtaining approvals in accordance with University policies and procedures increases the risk of unauthorized programming changes being made to critical information systems that the University uses to administer student financial assistance.

Recommendations:

The University should:

- Strengthen its controls to ensure that program-level data elements are reported to NSLDS accurately.
- Ensure that students who unofficially withdrew from a term are reported to NSLDS.
- Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

Views of Responsible Officials:

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective action to further improve the processes.

Corrective Action Plan:

Recommendation: Strengthen its controls to ensure that program-level data elements are reported to NSLDS accurately.

The University will adjust the business process for program changes and implement a methodology for review of program dates reported.

Implementation Date: June 2021

Responsible Person: Bryan Heard

Recommendation: Ensure that students who unofficially withdrew from a term are reported to NSLDS.

A process for reporting unofficial withdrawals is in place and will be followed.

Implementation Date: February 2021

Responsible Person: Bryan Heard

Recommendation: Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

We agree that the UHS change management policies and procedures should be consistently followed and the required approvals obtained for changes to university information systems used to administer student financial assistance.

2020 – 135 (Continued)

In both cases documented in the finding, the requestors have been reminded by their supervisors to follow all proper procedures. Additionally, as was noted in the finding, both of these changes were scheduled and discussed with the PeopleSoft Technical and Support committees (separate groups from the CMC committee) and documented via the "schedule of upcoming changes" spreadsheets prior to the changes being implemented. In cases such as these, the CMC committee approval becomes a formality. But, we agree that it is a formality that is part of the procedures and should be completed. Therefore, UIT Management will ensure that all appropriate staff are reminded of the change management policies and procedures and that required approvals are obtained in accordance with the policies.

Implementation Date: January 2021

Responsible Person: Mary Dickerson

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FEDERAL PORTION OF STATEWIDE SINGLE AUDIT REPORT
YEAR ENDED AUGUST 31, 2020**

**STATE OF TEXAS
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University of Houston

**2017 – 131 Eligibility
Activities Allowed or Unallowed
Special Tests and Provisions – Institutional Eligibility**

Federal Program Title: Student Financial Assistance Cluster

Federal Agencies: U.S. Department of Education and U.S. Department of Health and Human Services

Award year: July 1, 2016, to June 30, 2017

Award numbers: CFDA 84.007, Federal Supplemental Educational Opportunity Grants, P007A164166; CFDA 84.033, Federal Work-Study Program, P033A164166; CFDA 84.038, Federal Perkins Loan - Federal Capital Contributions, Award Number Not Applicable; CFDA 84.063, Federal Pell Grant Program, P063P162333; CFDA 84.268, Federal Direct Student Loans, P268K172333; CFDA 84.379, Teacher Education Assistance for College and Higher Education Grants, P379T172333; and CFDA 93.925, Scholarships for Health Professions Students from Disadvantaged Backgrounds, 1-T08HP30152-01-00

Statistically valid sample: No and not intended to be a statistically valid sample

Type of finding: Significant Deficiency and Noncompliance

Initial Year Written: 2015

Status: Implemented

Federal Supplemental Education Opportunity Grants (FSEOG)

In selecting among eligible students for FSEOG awards in each award year, an institution must select students with the lowest expected family contributions who will also receive Federal Pell Grants in that year. If the institution has FSEOG funds remaining after giving FSEOG awards to all the Federal Pell Grant recipients at the institution, the institution must award the remaining FSEOG funds to eligible students with the lowest expected family contributions who will not receive Federal Pell Grants (Title 34, CFR, Section 676.10).

Based on a review of the full population of federal student financial assistance recipients, the University awarded a total of \$5,000 to 3 students who did not also receive Federal Pell Grants. The University initially awarded those students Federal Pell Grant funds, but it canceled those awards prior to disbursement because those students were ineligible for the Federal Pell Grant funds. However, the University did not identify that cancellation and awarded the FSEOG funds in error. The University conducted a self-review process during this audit and canceled the FSEOG distributions to those students; therefore, there were no questioned costs.

Repeat finding: 2016-128 and 2015-120

Corrective Action:

Corrective action was taken.

2017 – 132 Special Tests and Provisions – Verification

Federal Program Title: Student Financial Assistance Cluster

Federal Agency: U.S. Department of Education

Award year: July 1, 2016, to June 30, 2017

Award numbers: CFDA 84.007, Federal Supplemental Educational Opportunity Grants, P007A164166; CFDA 84.033, Federal Work-Study Program, P033A164166; CFDA 84.038, Federal Perkins Loan - Federal Capital Contributions, Award Number Not Applicable; CFDA 84.063, Federal Pell Grant Program, P063P162333; CFDA 84.268, Federal Direct Student Loans, P268K172333; and CFDA 84.379, Teacher Education Assistance for College and Higher Education Grants, P379T172333

Statistically valid sample: No and not intended to be a statistically valid sample

Type of finding: Significant Deficiency and Noncompliance

Initial Year Written: 2014

Status: Implemented

For each applicant whose Free Application for Federal Student Aid (FAFSA) is selected for verification by the Secretary of the U.S. Department of Education, an institution must verify all of the applicable items, which include household size, number of household members who are in college, adjusted gross income, U.S. income taxes paid, child support paid, Supplemental Nutrition Assistance Program benefits, education credits, individual retirement account deductions, other untaxed income, high school completion, and identity and statement of educational purpose (Title 34, Code of Federal Regulations (CFR), Sections 668.54 and 668.56, and *Federal Register*, volume 80, number 123).

When the verification of an applicant's eligibility results in any change to a non-dollar item or a change to a single dollar item of \$25 or more from the applicant's FAFSA, the institution must submit a correction to the U.S. Department of Education and adjust the applicant's subsidized student financial assistance awards on the basis of the expected family contribution (EFC) on the corrected Institutional Student Information Record (ISIR) (Title 34, CFR, Section 668.59).

Household size for a dependent student includes (1) the student; (2) the student's parents; (3) the student's siblings and children, if they will receive more than half their support from the student's parent(s) for the entire award year; and (4) other persons who live with and receive more than half their support from the student's parent(s) and will receive more than half support for the entire award year. The number in college always includes (1) the student and (2) those in the household who are or will be enrolled at least half time during the award year in a degree or certificate program at a Title IV-eligible school and who can reasonably be expected to receive aid from the family for their education (U.S. Department of Education, *2016-2017 Federal Student Aid Handbook, Application and Verification Guide*, chapter 2). Acceptable documentation for verifying household size and the number of household members who are in college includes a statement signed by the applicant, and if the applicant is a dependent student, by one of the applicant's parents, that lists the name and age of each household member, the relationship of that household member to the applicant, and the name of the educational institution for each household member who is or will be attending at least half-time in a program that leads to a degree or certificate (Title 34, CFR, Sections 668.57(b) and (c), and *Federal Register*, volume 80, number 123).

For 3 (5 percent) of 62 students tested, the University of Houston (University) did not accurately verify certain required items on the FAFSA or made unsupported changes to FAFSA items. Specifically:

- The University did not accurately verify adjusted gross income for one student who submitted an amended tax return. That error occurred because of a manual error the University made in the verification process and because the University did not have an effective monitoring process during the award year to detect that error.
- The University inappropriately reduced the number of household members and number in college for two students. Each of those students certified the number of household members and the number in college on the verification forms they submitted to the University, and the University removed siblings from the household size and number in college because of the siblings' age. The University asserted that its practice was to remove household members who were in college and older than age 24; however, the University did not request information from the students to show that the household members it removed did not receive at least half of their support from the family.

2017 – 132 (Continued)

After auditors brought those errors to the University's attention, it did not make corrections to those students' ISIRs. Therefore, auditors were unable to determine whether there were any questioned costs.

Not properly verifying FAFSA information could result in the University overawarding or underawarding student financial assistance.

Repeat finding: 2016-129, 2015-121, and 2014-139

Corrective Action:

Corrective action was taken.

2017 – 134 Special Tests and Provisions – Enrollment Reporting

Federal Program Title: Student Financial Assistance Cluster

Federal Agency: U.S. Department of Education

Award year: July 1, 2016, to June 30, 2017

Award numbers: CFDA 84.038, Federal Perkins Loan - Federal Capital Contributions, Award Number Not Applicable; CFDA 84.063, Federal Pell Grant Program, P063P162333; and CFDA 84.268, Federal Direct Student Loans, P268K172333

Statistically valid sample: No and not intended to be a statistically valid sample

Type of finding: Significant Deficiency and Noncompliance

Initial Year Written: 2006

Status: Partially Implemented

Unless an institution expects to submit its next enrollment reporting roster file to the Secretary of the U.S. Department of Education within the next 60 days, it must notify the Secretary within 30 days if it discovers that a Federal Perkins Loan, Federal Family Education Loan (FFEL), Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who (1) enrolled at that institution but has ceased to be enrolled on at least a half-time basis; (2) has been accepted for enrollment at that institution but failed to enroll on at least a half-time basis for the period for which the loan was intended; or (3) has changed his or her permanent address (Title 34, Code of Federal Regulations (CFR), Sections 674.19(f), 685.309(b) and 682.610(c)). Enrollment reporting roster files must also include Federal Pell Grant-only recipients (Title 34, CFR, Section 690.83(b)(2), and *Dear Colleague Letter*, March 30, 2012 (GEN-12-06)). Institutions are required to report the campus-level enrollment for the student, including enrollment status and the effective date of that enrollment status (*National Student Loan Data System (NSLDS) Enrollment Reporting Guide*, chapter 1).

The University of Houston (University) uses the services of the National Student Clearinghouse (NSC) to report status changes to NSLDS. Under this arrangement, the University reports all students enrolled and their status to NSC. NSC then identifies any changes in status and reports those changes when required to NSLDS. Additionally, NSC completes the roster file on the University's behalf and communicates status changes to NSLDS as applicable. Although the University uses the services of NSC, it is still ultimately the University's responsibility to submit timely, accurate, and complete responses to roster files and to maintain proper documentation (*NSLDS Enrollment Reporting Guide*, chapter 3).

For 4 (7 percent) of 61 students tested who had a status change, the University did not always report effective dates accurately or did not report the status change in a timely manner to NSLDS. Specifically:

- For one student, the University incorrectly reported the effective date of the status change as the date that the University certified the status change to NSC instead of the date that the student dropped below full-time enrollment.

2017 – 134 (Continued)

- For one student, the University incorrectly reported the midpoint of the term as the effective date of the student's withdrawal instead of using the student's last day of academically related activity.
- For one student, the University initially reported the effective date for the student's withdrawal as the last day of academically related activity, which was accurate. However, a subsequent submission to NSLDS overwrote that effective date with an inaccurate effective date (the final day of the term).
- For one student, the University reported the enrollment status change to NSC within the required time frame. However, NSC did not report that student's status enrollment change to NSLDS until 76 days after the effective date of the enrollment status change.

The University did not have a process to ensure that the effective dates of enrollment status changes were reported accurately to NSLDS.

Not reporting the effective date of enrollment status changes accurately and not reporting status changes in a timely manner could affect the determinations that guarantors, lenders, and servicers of student loans make related to in-school status, deferments, grace periods, and repayment schedules, as well as the federal government's payment of interest subsidies.

Repeat finding: 2016-131, 2015-124, 2014-140, 2013-165, 13-147, 12-153, 11-154, 10-98, 09-87, 08-74, and 07-58

Corrective Action:

This finding was reissued as current year reference number 2020-129.

CORRECTIVE ACTION PLAN
FEDERAL PORTION OF STATEWIDE SINGLE AUDIT REPORT
YEAR ENDED AUGUST 31, 2020

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**STATE OF TEXAS
CORRECTIVE ACTION PLAN – CLA
YEAR ENDED AUGUST 31, 2020**

Corrective Action Plan – CLA

Federal regulations, Title 2 U.S. Code of Federal Regulations Section 200.511, state, "At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings, a corrective action plan to address each audit finding included in the current year auditor's reports." As part of this responsibility, the auditees' corrective action plans are presented below.

UNIVERSITY of HOUSTON

Scholarships and Financial Aid

Reference No. 2020-126

Eligibility

Finding 2020-126

Activities Allowed or Unallowed

Cash management

Special Tests and Provisions – Verification

Special Tests and Provisions – Disbursements To or On Behalf of Students

Special Tests and Provisions – Borrower Data Transmission and Reconciliation (Direct Loan)

Special Tests and Provisions – General Program Eligibility

Special Tests and Provisions – Distance Education Program

Views of Responsible Officials:

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University has developed and will begin to implement corrective action to further improve the process.

Corrective Action Plan:

The University has identified a process to determine if students in completely online programs are incarcerated to ensure that not more than 25 percent of its regular enrolled students are incarcerated. A short-term, manual process, which would require online-only students who apply for financial aid to confirm they are not incarcerated prior to disbursement of funds, can be implemented rather quickly, but a more accurate, systematic process will require the coordinated efforts of multiple departments across the University and will be pursued as a long-term solution.

Responsible Persons: Scott Moore and Lety Gallegos

Completion Date: February 26, 2021

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UNIVERSITY of HOUSTON

Scholarships and Financial Aid

Reference No. 2020-127
Reporting

Finding 2020-127

Views of Responsible Officials:

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University has developed and will begin to implement corrective action to further improve the process.

Corrective Action Plan:

The functional area responsible for processing TEACH Grants underwent a number of staffing changes during the year, including the departure of the assistant director responsible for overseeing the program, resulting in incorrect reporting of enrollment dates. The new assistant director and program coordinator responsible for creating TEACH applications in COD have received thorough training and understand the importance of timely and accurate reporting of the enrollment dates for the program. The University is in the process of re-opening the year to correct the reported dates in COD to ensure the student's enrollment dates are accurate.

Responsible Persons: Joshua Trevino

Completion Date: February 12, 2021

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UNIVERSITY of HOUSTON

Scholarships and Financial Aid

Reference No. 2020-128

Finding 2020-128

Special Tests and Provisions – Return of Title IV Funds

Views of Responsible Officials:

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University has developed and will begin to implement corrective action to further improve the process.

Corrective Action Plan:

A new, highly-experienced staff member is now sharing responsibilities for processing R2T4 calculations, which is expected to reduce human error and allow for better quality control measures to monitor that R2T4 calculations are being accurately completed. To ensure aid is not incorrectly disbursed to students who have withdrawn, responsible staff have been advised on how to properly package late applicants, as well as to not manually override holds preventing disbursement without first confirming a student's true eligibility.

Implementation Date: December 23, 2020

Responsible Persons: Frank Gomez

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UNIVERSITY of HOUSTON

Scholarships and Financial Aid

Reference No. 2020-129

Finding 2020-129

Special Tests and Provisions — Enrollment Reporting

Views of Responsible Officials:

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University has developed and will begin to implement corrective action to further improve the process.

Corrective Action Plan:

The Enrollment Report sent to the National Student Clearinghouse (NSC) contains two levels of reporting: Campus Level and Program Level. In fall 2019, UH was using a custom report that did not generate data correctly. This custom report had accurate reporting at the campus level but not at the program level. We identified this issue and moved to the delivered process in spring 2020. The first delivered enrollment report was sent to the NSC on February 3, 2020. I have confirmed that data points for the program begin dates and enrollment status changes are appearing correctly on the delivered enrollment report.

Implementation Date: February 3, 2020

Responsible Person: Rachel Honora

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UNIVERSITY of HOUSTON

Scholarships and Financial Aid

General Controls

Views of Responsible Officials:

Finding 2020-126

Finding 2020-127

Finding 2020-128

Finding 2020-129

We agree that the UHS change management policies and procedures should be consistently followed and the required approvals obtained for changes to university information systems used to administer student financial assistance.

Corrective Action Plan:

In both cases documented in the finding, the requestors have been reminded by their supervisors to follow all proper procedures. Additionally, as was noted in the finding, both of these changes were scheduled and discussed with the PeopleSoft Technical and Support committees (separate groups from the CMC committee) and documented via the "schedule of upcoming changes" spreadsheets prior to the changes being implemented. In cases such as these, the CMC committee approval becomes a formality. But, we agree that it is a formality that is part of the procedures and should be completed. Therefore, UIT Management will ensure that all appropriate staff are reminded of the change management policies and procedures and that required approvals are obtained in accordance with the policies.

Implementation Date: January 29, 2021

Responsible Person: Mary Dickerson

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UNIVERSITY of HOUSTON SYSTEM

Karin A. Livingston, CPA
Associate Vice Chancellor for Finance - University of Houston System
Associate Vice President for Finance - University of Houston

Finding 2020-130

Recommendation: The University should ensure that only allowable costs are charged to federal awards

Views of Responsible Officials:

The University acknowledges and agrees with the finding and will develop a corrective action plan.

Corrective Action Plan:

The University has drafted guidelines for the oversight of Education Stabilization Funds based on review of guidelines issued to date for the HEERF II funds (which are applicable to HEERF funds unspent as of December 27, 2020). These guidelines include the creation of a list of compliance requirements, regularly checking the Department of Education's website for updated guidance, establishing a time frame for corrections required by updated or clarified guidance, identification of allowable costs and time frames, establishment of documentation and approval processes for all uses of funds, and reconciliation processes. This guideline will be finalized once open questions regarding the HEERF II funding are addressed by the Department of Education.

Implementation Date: August 1, 2021

Responsible Person: Karin Livingston, AVC/AVP Finance, University of Houston

UNIVERSITY of HOUSTON SYSTEM

Karin A. Livingston, CPA
Associate Vice Chancellor for Finance - University of Houston System
Associate Vice President for Finance - University of Houston

Finding 2020-131

Recommendation: The University should ensure that all costs it charges to federal awards are incurred within the period of performance.

Views of Responsible Officials:

The University acknowledges and agrees with the finding and will develop a corrective action plan.

Corrective Action Plan:

The University has drafted guidelines for the oversight of Education Stabilization Funds based on review of guidelines issued to date for the HEERF II funds (which are applicable to HEERF funds unspent as of December 27, 2020). These guidelines include the creation of a list of compliance requirements, regularly checking the Department of Education's website for updated guidance, establishing a time frame for corrections required by updated or clarified guidance, identification of allowable costs and time frames, establishment of documentation and approval processes for all uses of funds, and reconciliation processes. This guideline will be finalized once open questions regarding the HEERF II funding are addressed by the Department of Education.

Implementation Date: August 1, 2021

Responsible Person: Karin Livingston, AVC/AVP Finance, University of Houston

UNIVERSITY of HOUSTON SYSTEM

Karin A. Livingston, CPA
Associate Vice Chancellor for Finance - University of Houston System
Associate Vice President for Finance - University of Houston

Finding 2020-130

Finding 2020-131

Recommendation: Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

Views of Responsible Officials:

The University acknowledges and agrees with the finding and will develop a corrective action plan.

Corrective Action Plan:

We agree that the UHS change management policies and procedures should be consistently followed and the required approvals obtained for changes to university information systems used to administer student financial assistance. In both cases documented in the finding, the requestors have been reminded by their supervisors to follow all proper procedures. Additionally, as was noted in the finding, both of these changes were scheduled and discussed with the PeopleSoft Technical and Support committees (separate groups from the CMC committee) and documented via the "schedule of upcoming changes" spreadsheets prior to the changes being implemented. In cases such as these, the CMC committee approval becomes a formality. But, we agree that it is a formality that is part of the procedures and should be completed. Therefore, UIT Management will ensure that all appropriate staff are reminded of the change management policies and procedures and that required approvals are obtained in accordance with the policies.

Implementation Date: January 29, 2021

Responsible Person: Mary Dickerson, Assistant Vice President/Vice Chancellor and CIO, University of Houston/University of Houston System

University of Houston Clear Lake

Eligibility

Finding 2020-132

Views of Responsible Officials:

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective action to further improve the processes.

Strengthen its controls to ensure that it correctly calculates students' COA Budgets in accordance with its process.

Corrective Action Plan:

The department has implemented multi-level review to ensure accuracy and compliance. Upper-level management within Financial Aid will review information input for each budget item, as well as perform testing to ensure accurate values and computations are established within Peoplesoft.

Implementation Date: April 2021

Responsible Person: Holly Nolan

Award students the correct amount of Federal Pell Grant assistance for an award year.

Corrective Action Plan:

Office of Financial Aid will review a Pell Chart Report available in PeopleSoft as an additional review of all Pell awards. This will provide additional support to a query to find errors in Federal Pell Grant amounts.

Implementation Date: July 2021

Responsible Person: Holly Nolan

Award FSEOG assistance only to eligible students.

Corrective Action Plan:

Students were awarded FSEOG to Pell eligible students that had reached their LEU and therefore not awarded Federal Pell Grant in the same term as FSEOG. A query has been created to identify students in this scenario to remove the FSEOG. The query will be reviewed at the beginning of each term.

Implementation Date: March 2021

Responsible Person: Holly Nolan

Update its ECAR as required, and ensure that it does not disburse financial assistance to students at locations that are not on its ECAR.

Corrective Action Plan:

University of Houston Clear Lake

The current ECAR has been reviewed on multiple levels and updates to correct locations submitted to the Department of Education. UHCL will create a Business Process to ensure departments communicate with the Office of Student Financial Aid when any changes are needed and are educated about the changes that require updates.

Implementation Date: May 2021

Responsible Person: Holly Nolan

Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems:

Corrective Action Plan:

We agree that the UHS change management policies and procedures should be consistently followed and the required approvals obtained for changes to university information systems used to administer student financial assistance.

In both cases documented in the finding, the requestors have been reminded by their supervisors to follow all proper procedures. Additionally, as was noted in the finding, both of these changes were scheduled and discussed with the PeopleSoft Technical and Support committees (separate groups from the CMC committee) and documented via the "schedule of upcoming changes" spreadsheets prior to the changes being implemented. In cases such as these, the CMC committee approval becomes a formality. But, we agree that it is a formality that is part of the procedures and should be completed. Therefore, UIT Management will ensure that all appropriate staff are reminded of the change management policies and procedures and that required approvals are obtained in accordance with the policies.

Implementation Date: January, 2021

Responsible Person: Mary Dickerson

University of Houston Clear Lake

Special Tests and Provisions – Verification

Finding 2020-133

Views of Responsible Officials:

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective action to further improve the processes.

Strengthen its controls to ensure that it accurately verifies all required FAFSA information for students selected for verification.

Corrective Action Plan:

Additional training and webinars will be provided to Financial Aid staff on required documentation and verification procedures. Sample files will be selected for upper-level management to review for accuracy. Any issues will be resolved in a timely manner if identified.

Implementation Date: May 2021

Responsible Person: Holly Nolan

Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

Corrective Action Plan:

We agree that the UHS change management policies and procedures should be consistently followed and the required approvals obtained for changes to university information systems used to administer student financial assistance.

In both cases documented in the finding, the requestors have been reminded by their supervisors to follow all proper procedures. Additionally, as was noted in the finding, both of these changes were scheduled and discussed with the PeopleSoft Technical and Support committees (separate groups from the CMC committee) and documented via the "schedule of upcoming changes" spreadsheets prior to the changes being implemented. In cases such as these, the CMC committee approval becomes a formality. But, we agree that it is a formality that is part of the procedures and should be completed. Therefore, UIT Management will ensure that all appropriate staff are reminded of the change management policies and procedures and that required approvals are obtained in accordance with the policies.

Implementation Date: January, 2021

Responsible Person: Mary Dickerson

University of Houston Clear Lake

Special Tests and Provisions – Return of Title IV Funds

Finding 2020-134

Views of Responsible Officials:

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective action to further improve the processes.

Strengthen its controls to ensure that it accurately calculates returns of Title IV funds when required, including review of the variables it uses in those calculations.

Corrective Action Plan:

Peoplesoft system is being reviewed to update some functions to automatically calculate certain variables of the Return to Title IV worksheet. The institutional charges will automatically calculate, eliminating manual processing errors. Days and number of days will be checked prior to term by upper-level management to ensure accurate calculations. Business Process documents will be reviewed and updated accordingly to serve as how-to-guide for staff.

Implementation Date: May 2021

Responsible Person: Holly Nolan

Return Title IV funds in the order required by the U.S. Department of Education.

Corrective Action Plan:

Training will be provided to staff for Return to Title IV processes and procedures. Any additional webinars or NASFAA credential testing will be offered to update skills in processing returns. A new Assistant Director has been hired to process Return to Title IV. She will be trained and returns reviewed and monitored for accuracy by upper-level administration.

Implementation Date: May 2021

Responsible Person: Holly Nolan

Strengthen its monitoring controls to ensure that it detects and corrects errors in return of Title IV calculations and returns Title IV funds within required time frames.

Corrective Action Plan:

A new Assistant Director has been hired to process calculations, upper-level management will review completed calculations to ensure accuracy. Any issues that come about will be review and discussed with the staff to ensure understanding and on-going compliance. Reports will be reviewed to ensure timeliness of the returns.

Implementation Date: March 2021

Responsible Person: Holly Nolan

University of Houston Clear Lake

Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

Corrective Action Plan:

We agree that the UHS change management policies and procedures should be consistently followed and the required approvals obtained for changes to university information systems used to administer student financial assistance.

In both cases documented in the finding, the requestors have been reminded by their supervisors to follow all proper procedures. Additionally, as was noted in the finding, both of these changes were scheduled and discussed with the PeopleSoft Technical and Support committees (separate groups from the CMC committee) and documented via the "schedule of upcoming changes" spreadsheets prior to the changes being implemented. In cases such as these, the CMC committee approval becomes a formality. But, we agree that it is a formality that is part of the procedures and should be completed. Therefore, UIT Management will ensure that all appropriate staff are reminded of the change management policies and procedures and that required approvals are obtained in accordance with the policies.

Implementation Date: January, 2021

Responsible Person: Mary Dickerson

University of Houston Clear Lake

Special Tests and Provisions – Enrollment Reporting

Finding 2020-135

Views of Responsible Officials:

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective action to further improve the processes.

Strengthen its controls to ensure that program-level data elements are reported to NSLDS accurately.

Corrective Action Plan:

The University will adjust the business process for program changes and implement a methodology for review of program dates reported.

Implementation Date: June 2021

Responsible Person: Bryan Heard

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective action to further improve the processes.

Ensure that students who unofficially withdrew from a term are reported to NSLDS.

Corrective Action Plan:

A process for reporting unofficial withdrawals is in place and will be followed.

Implementation Date: Feb. 2021

Responsible Person: Bryan Heard

Consistently follow its change management policies and procedures to obtain required approvals for changes to information systems.

Corrective Action Plan:

We agree that the UHS change management policies and procedures should be consistently followed and the required approvals obtained for changes to university information systems used to administer student financial assistance.

In both cases documented in the finding, the requestors have been reminded by their supervisors to follow all proper procedures. Additionally, as was noted in the finding, both of these changes were scheduled and discussed with the PeopleSoft Technical and Support committees (separate groups from the CMC committee) and documented via the "schedule of upcoming changes" spreadsheets prior to the changes being implemented. In cases such as these, the CMC committee approval becomes a formality. But, we agree that it is a formality that is part of the procedures and should be completed. Therefore, UIT Management will ensure that all appropriate staff

University of Houston Clear Lake

are reminded of the change management policies and procedures and that required approvals are obtained in accordance with the policies.

Implementation Date: January, 2021

Responsible Person: Mary Dickerson

State Auditor Reports
Key Points

#21-555– Financial Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2020

Findings - UH

- 1) Chapter 2, Financial Statement Findings, Chapter 2-A, Schedule of Expenditures of Federal Awards (SEFA)
 - The University of Houston should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including reporting expenditures in the appropriate fiscal year and CFDA. (**Action Complete.**)



Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

State of Texas Financial Portion of the
**Statewide Single Audit Report for the
Year Ended August 31, 2020**

February 2021
Report No. 21-555

State Auditor's Office reports are available on the Internet at <http://www.sao.texas.gov/>.



State of Texas Financial Portion of the
**Statewide Single Audit Report for the Year
Ended August 31, 2020**

SAO Report No. 21-555
February 2021

Overall Conclusion

In our audit opinion dated February 23, 2021, we concluded that the basic financial statements for the State of Texas presented fairly, in all material respects, the financial position and activities of the State for the fiscal year ended August 31, 2020. The Office of the Comptroller of Public Accounts (Comptroller's Office) prepared the basic financial statements and published our audit opinion as part of the Comprehensive Annual Financial Report (CAFR) for fiscal year 2020, which it intends to post on its website at <https://comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/>.

The consolidated financial statements provide a comprehensive view of the State's financial activities during the fiscal year and an overall picture of the financial position of the State at the end of the fiscal year. Compiling the State's consolidated financial statements is a major undertaking; those financial statements combine financial information for more than 200 state agencies and higher education institutions.

Economic Stabilization Fund

On August 31, 2020, the Economic Stabilization Fund balance was \$11.3 billion. That amount consisted primarily of \$5.9 billion in cash in the State Treasury, \$4.1 billion in current and non-current investments, and \$1.3 billion due from the General Revenue Fund. The General Revenue Fund transferred \$1.1 billion to the Economic Stabilization Fund in November 2020. The Economic Stabilization Fund is reported in the General Fund on the governmental fund financial statements and in Governmental Activities on the government-wide financial statements.

Basic Financial Statements

The State's basic financial statements include both government-wide and fund financial statements:

- Government-wide financial statements display information about the State as a whole, except for its fiduciary activities.
- Fund financial statements for the State's governmental and proprietary funds provide information on the major funds individually and nonmajor funds in the aggregate. Fiduciary statements include financial information for fiduciary funds.

Source: Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

Fiscal Year 2020 Financial Summary

- As of August 31, 2020, the State reported total assets of \$380.4 billion, which primarily consisted of \$159.9 billion in capital assets, \$128.2 billion in investments, and \$46.7 billion in cash and cash equivalents.
- As of August 31, 2020, the State reported total liabilities of \$250.3 billion, which consisted of \$77.0 billion for other postemployment benefits (OPEB) liabilities, \$67.1 billion for pension liabilities, and \$59.7 billion for bonds payable liabilities.
- As of August 31, 2020, the State reported a net position of \$117.1 billion. Net position is the total ending balance for the State.
- The fiscal year 2020 consolidated financial statements report the use of approximately \$198.8 billion¹ during the fiscal year.
- The State's Schedule of Expenditures of Federal Awards (SEFA) reported expenditures of \$95.1 billion related to federal awards.

The State is also the trustee or fiduciary for ten defined benefit plans and one defined contribution plan. It is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. These activities are reported separately from other financial activities because the State cannot use the assets to finance its operations. The State's fiduciary responsibilities include ensuring that assets reported in those funds are used for their intended purposes. The financial activity and balances for those fiduciary activities are not included in the fiscal year 2020 totals listed above.

Auditing the basic financial statements is not limited to reviewing the numbers in those statements. Conducting this audit also requires the State Auditor's Office to obtain a sufficient understanding of the agencies and higher education institutions and their operating environments—including obtaining an understanding of the internal controls over systems and processes that the agencies and higher education institutions use to record their financial activities—to assess the risk of material misstatement of the financial statements.

The State Auditor's Office also audited the State's SEFA in relation to the CAFR for fiscal year 2020 and issued an unmodified opinion. The Comptroller's Office prepares the SEFA by using self-reported SEFA data from all state agencies and

¹ The \$198.8 billion in annual expenditures exceeded the \$123.6 billion appropriated for fiscal year 2020 primarily because:

- Certain expenditures (such as higher education institutions' expenditures of funds held outside the State Treasury) are included in the Comprehensive Annual Financial Report (CAFR) but are not included in the General Appropriations Act (GAA).
- The CAFR presents actual expenditures of federal funds, while the GAA presents estimated amounts for federal funds.
- Additional pension and OPEB-related expenditures were recorded in the CAFR to account for the effects of the implementation of GASB Statements Nos. 68, 71, 73, and 75 that are not included in the GAA.

higher education institutions that made federal expenditures during the fiscal year. The State Auditor's Office and CliftonLarsonAllen LLP (CLA) audited the processes for preparing SEFA information at 21 agencies and higher education institutions. Auditors identified errors related to the SEFA information at nine agencies and higher education institutions. Those errors are discussed in Chapter 2-A of this report.

As part of the audit work for SEFA, auditors performed prior-year finding follow-up work at seven agencies and higher education institutions and determined that recommendations for two of those findings were not yet fully implemented (see the Summary Schedule of Prior Year Audit Findings).

The State Auditor's Office conducts this audit so that the State can comply with federal legislation (the Single Audit Act Amendments of 1996); state statute (Texas Government Code, Section 403.013(c)); and grant requirements to obtain an opinion regarding the fair presentation of its basic financial statements and a report on internal controls related to those statements. The results of this audit may be used by bond-rating companies, the Legislature, and federal agencies that award grants.

Summary of Management's Response

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The agencies and higher education institutions agreed with the recommendations in this report.

Audit Objective and Scope

The audit objective was to determine whether the State's basic financial statements present fairly, in all material respects, the consolidated balances and activities for the State of Texas for the fiscal year ended August 31, 2020.

The Statewide Single Audit is an annual audit for the State of Texas. It is conducted so that the State complies with (1) the Single Audit Act Amendments of 1996 and Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and (2) state statute requiring that an audited CAFR be provided to the Governor (Texas Government Code, Section 403.013(c)).

The scope of the financial portion of the Statewide Single Audit included an audit of the State's basic financial statements and a review of significant controls over financial reporting and compliance with applicable requirements.

The scope of the federal compliance portion of the Statewide Single Audit included an audit of the State's SEFA, a review of compliance for each major program, and a review of significant controls over federal compliance. The State Auditor's Office contracted with CLA to provide an opinion on compliance for each major program and internal control over compliance. The State Auditor's Office provided an opinion on the State's SEFA, in relation to its opinion on the CAFR. Information on the federal compliance portion of the Statewide Single Audit is included in a separate report entitled *State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2020*, by CLA.

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Independent Auditor's Report

*State of Texas Financial Portion of the
Statewide Single Audit Report for the
Year Ended August 31, 2020*

Summary of Auditor's Results

Financial Statements

- | | |
|--|------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. Noncompliance material to financial statements noted? | No |

Federal Awards

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2020 was included in Chapter 2-A of this report. All other fiscal year 2020 federal award information was issued in a separate report (see *State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2020*, by CLA).



**Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Independent Auditor's Report

The Honorable Greg Abbott, Governor
The Honorable Glenn Hegar, Comptroller of Public Accounts
The Honorable Dan Patrick, Lieutenant Governor
The Honorable Dade Phelan, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Texas as of and for the year ended August 31, 2020, and the related notes to the consolidated financial statements, which collectively comprise the State of Texas's basic financial statements, and have issued our report thereon dated February 23, 2021. Our report includes a reference to other auditors who audited the financial statements of the Department of Transportation, the Employees Retirement System, the Texas Lottery Commission, and the University of Texas System as described in our report on the State of Texas's consolidated financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses as items that we consider to be significant deficiencies.

Summary of Findings and Responses	
Agency or Higher Education Institution	Finding Numbers
Multiple agencies and higher education institutions	21-555-01

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Auditors communicated certain issues that were not material or significant to the audit objectives in writing to the management of audited entities.

Other Work Performed by the State Auditor's Office

We issued opinions on the following financial statements, which are consolidated into the basic financial statements of the State of Texas:

- *A Report on the Audit of the Teacher Retirement System's Fiscal Year 2020 Financial Statements* (State Auditor's Office Report No. 21-003, November 2020).
- *A Report on the Audit of the Department of Housing and Community Affairs' Fiscal Year 2020 Financial Statements* (State Auditor's Office Report No. 21-005, December 2020).
- *A Report on the Audit of the Permanent School Fund's Fiscal Year 2020 Financial Statements* (State Auditor's Office Report No. 21-006, December 2020).

This report, insofar as it relates to the entities listed above, does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

State's Responses to Findings

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The State's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the State's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

February 23, 2021

Schedule of Findings and Responses

*State of Texas Financial Portion of the
Statewide Single Audit Report for the
Year Ended August 31, 2020*

Financial Statement Findings

This chapter identifies the significant deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. There are no significant deficiencies related to the State's basic financial statements, but Chapter 2-A below discusses significant deficiencies related to the State's Schedule of Expenditures of Federal Awards.

Chapter 2-A

State Entities Should Strengthen the Preparation and Review of Their Schedules of Expenditures of Federal Awards

Reference No. 21-555-01

(Prior Audit Issue 20-555-02, 19-555-01, 18-555-04, 17-555-04, 16-555-04, 15-555-05, 14-555-07, 13-555-02, 12-555-05, 11-555-17, 10-555-26, and 09-555-19)

Type of finding: Significant Deficiency

Schedule of Expenditures of Federal Awards (SEFA)

Each state entity that expends federal awards is required to prepare a Schedule of Expenditures of Federal Awards (SEFA) and submit it to the Office of the Comptroller of Public Accounts (Comptroller's Office). The expenditures are to be presented in the SEFA on the same accounting basis as each state entity's fund financial statements.

Federal awards include federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities [Title 2, U.S. Code of Federal Regulations (CFR), Section 200.38].

Federal financial assistance includes any assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, non-cash contributions or donations of property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance [Title 2, CFR, Section 200.40].

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Comptroller's Office.

The agencies and higher education institutions discussed below did not appropriately prepare or adequately review their fiscal year 2020 Schedule of Expenditures of Federal Awards (SEFA) (see text box for additional information). Therefore, the SEFAs that they submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office) contained errors.

Those agencies and higher education institutions accounted for \$43,764,732,829 in federal expenditures, or 46 percent of the total federal expenditures that the State of Texas reported for fiscal year 2020. The errors listed below were not material to the fiscal year 2020 SEFA for the State of Texas or to the fiscal year 2020 Comprehensive Annual Financial Report for the State of Texas. However, collectively, they represent control weaknesses that could be significant to the State's SEFA.

Department of State Health Services

The Department of State Health Services (DSHS) understated expenditures by \$51,301,233 related to the Coronavirus Relief Fund (CFDA 21.019) on its fiscal year 2020 SEFA. That occurred because DSHS reported SEFA expenditures based on advance payments made to vendors. DSHS should have reported expenditures for this program based on actual expenditures

- Reports outstanding balances correctly in the notes to its SEFA.
- Reports administrative costs as required.

Views of Responsible Officials

The University of North Texas (UNT) acknowledges and agrees with the audit findings. During the audit, it was discovered that the outstanding loans section was incorrectly reported causing an overstatement of \$183,020,257 on note 3. In addition, there was an exclusion of \$169,586 of administrative cost for student financial aid CFDA program. Upon notice of the findings, I have executed the below action plan.

Corrective Action Plan

UNT immediately updated processes to ensure future reporting reports outstanding loans and administrative cost appropriately in the fiscal year.

Implementation Date: December 16, 2020

Responsible Person: Senior Principal Accountant

University of Houston

On its fiscal year 2020 SEFA, the University of Houston:

- Overstated expenditures by \$739,755 for Note 8. The overstatement occurred because the University of Houston incorrectly included expenditures associated with project worksheets that FEMA approved prior to fiscal year 2020.
- Misclassified \$2,546,211 in expenditures between two CFDA's. As a result of the misclassification, expenditures were overstated for CFDA 84.424 and understated for CFDA 84.425 by that amount. The misclassification occurred because the University of Houston did not have an adequate review process to verify that federal awards were properly categorized.

Recommendation

The University of Houston should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including reporting expenditures in the appropriate fiscal year and CFDA.

Views of Responsible Officials

The University acknowledges and agrees with the finding and will develop a corrective action plan.

Corrective Action Plan

The University will update their SEFA preparation and review procedures to include PW's in Note 8 based on Award Date and will improve its CFDA assignment and review procedures for new CFDA processes by ensuring that the CFDA is confirmed.

Implementation Date: February 28, 2021

Responsible Person: AVP Finance and Controller

The University of Texas at Arlington

The University of Texas at Arlington (UTA) understated expenditures on its fiscal year 2020 SEFA by \$247,954 for 1 Student Financial Assistance (SFA) CFDA program. That occurred because UTA incorrectly classified some SFA disbursements as "prepaid expenses" and excluded them from the fiscal year 2020 SEFA. However, SFA disbursements should be reported on the SEFA for the fiscal year in which they are made; therefore, those disbursements should have been included on UTA's fiscal year 2020 SEFA.

Recommendation

The University of Texas at Arlington should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly, including reporting expenditures in the appropriate fiscal year.

Views of Responsible Officials

The University of Texas at Arlington (UTA) acknowledges and agrees with the finding. As recommended, through analysis of the exception identified in the audit, UTA has implemented corrective action to further improve the processes.

Summary Schedule of Prior Audit Findings

*State of Texas Financial Portion of the
Statewide Single Audit Report for the
Year Ended August 31, 2020*

Summary Schedule of Prior Audit Findings

Federal regulations (Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*) state that “the auditee is responsible for follow-up and corrective action on all audit findings.” As part of this responsibility, the auditees report the corrective actions they have taken for the findings reported in:

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2008 (State Auditor’s Office Report No. 09-555, April 2009).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009 (State Auditor’s Office Report No. 10-555, March 2010).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010 (State Auditor’s Office Report No. 11-555, February 2011).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2011 (State Auditor’s Office Report No. 12-555, February 2012).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2012 (State Auditor’s Office Report No. 13-555, February 2013).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2013 (State Auditor’s Office Report No. 14-555, February 2014).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2014 (State Auditor’s Office Report No. 15-555, February 2015).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2015 (State Auditor’s Office Report No. 16-555, March 2016).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2016 (State Auditor’s Office Report No. 17-555, February 2017).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2017 (State Auditor's Office Report No. 18-555, February 2018).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2018 (State Auditor's Office Report No. 19-555, February 2019).

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2019 (State Auditor's Office Report No. 20-555, February 2020).

The Summary Schedule of Prior Audit Findings (for the year ended August 31, 2020) has been prepared to address these responsibilities.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The audit objective was to determine whether the State's basic financial statements present fairly, in all material respects, the consolidated balances and activities for the State of Texas for the fiscal year ended August 31, 2020.

The Statewide Single Audit is an annual audit for the State of Texas. It is conducted so that the State complies with (1) the Single Audit Act Amendments of 1996 and Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and (2) state statute requiring that an audited Comprehensive Annual Financial Report be provided to the Governor (Texas Government Code, Section 403.013(c)).

Scope

The scope of the financial portion of the Statewide Single Audit included an audit of the State's basic financial statements and a review of significant controls over financial reporting and compliance with applicable requirements. The opinion on the basic financial statements, published in the Comprehensive Annual Financial Report for the fiscal year ended August 31, 2020, was dated February 23, 2021.

The scope of the federal compliance portion of the Statewide Single Audit included an audit of the State's Schedule of Expenditures of Federal Awards (SEFA), a review of compliance for each major program, and a review of significant controls over federal compliance. The State Auditor's Office contracted with CliftonLarsonAllen LLP (CLA) to provide an opinion on compliance for each major program and internal control over compliance. The State Auditor's Office provided an opinion on the State's SEFA, in relation to its opinion on the CAFR. Information on the federal compliance portion of the Statewide Single Audit is included in a separate report entitled *State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2020*, by CLA.

Methodology

The audit methodology included collecting information, verifying certain information collected, conducting data analyses, performing selected audit tests, and other procedures, and analyzing and evaluating the results against established criteria.

To avoid duplication of effort, the State Auditor's Office relied on CLA's testing of the internal controls over certain systems and processes as they related to the financial portion of the Statewide Single Audit.

Auditors assessed the reliability of the State's data by (1) performing electronic tests of required data elements, (2) reviewing existing information about data and the systems that produced the data, and (3) interviewing agency and higher education institution officials knowledgeable about data. Auditors determined that the data was sufficiently reliable for the purposes of the audit.

Sampling Methodology

As part of the audit procedures performed on the SEFA, auditors selected a risk-based sample of generic Catalog of Federal Domestic Assistance numbers (CFDAs) to test that the correct unique identifying number was reported.

Information collected and reviewed included the following:

- Agency and higher education institution policies and procedures.
- Agency and higher education institution systems documentation.
- Agency and higher education institution accounting data, which consisted of accounting data from agency and higher education institution internal accounting systems and accounting data from the Uniform Statewide Accounting System.
- Agency and higher education institution year-end accounting adjustments.
- Agency and higher education institution fiscal year 2020 annual financial reports.
- Agency and higher education institution fiscal year 2020 SEFA submissions to the Office of the Comptroller of Public Accounts (Comptroller's Office).

Information systems reviewed included the following:

- Agency internal accounting systems.
- Uniform Statewide Accounting System.

Procedures and tests conducted included the following:

- Evaluating automated systems controls.
- Performing analytical tests of account balances.
- Evaluating agency and higher education institution transactions.
- Comparing agency and higher education institution accounting practices with the Comptroller Office's reporting requirements.

Criteria used included the following:

- Texas statutes.
- The Texas Administrative Code.
- The General Appropriations Act (86th Legislature).
- The Comptroller's Office policies and procedures.
- The Comptroller's Office's *Reporting Requirements for the Annual Financial Reports of State Agencies and Universities*.
- Agency and higher education institution policies and procedures.
- Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.
- Generally accepted accounting principles as established by existing authoritative literature including, but not limited to, literature published by the Governmental Accounting Standards Board and the Financial Accounting Standards Board.

Project Information

Audit fieldwork was conducted from August 2020 through February 2021. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that the State Auditor's Office and those performing the audit be independent, and that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The State Auditor's Office implemented safeguards to maintain its independence to perform this audit. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit of the Comprehensive Annual Financial Report:

- Jeannette Quiñonez Garcia, CPA (Project Manager)
- Anca Pinchas, CPA, CISA, CIDA (Assistant Project Manager)
- Philip Stringer, CPA (Assistant Project Manager)
- Nimita Azam, M.Sc. Finance
- Robert (Rob) H. Bollinger, CPA, CGMA, CFE
- Mohammad Ali Bawany, CISA
- Morgan Burandt, CPA
- Robert Burg, MPA, CPA, CFE
- Chase Dierschke, Macy, CIA
- Kristin Auriel Rene' Franklin, MSA
- Lauren Futch, CPA
- Elizabeth Gallegos, MAcc
- Jennifer Grant, CFE
- Taylor L. Huff, CFE
- Joyce Inman, CGFM

- Eric Ladejo, MPA, CFE, CIA
- Alana Montoro
- Robert Pagenkopf, MBA, CFE
- Fabienne Robin, MBA
- Nakeesa Shahparasti, CPA, CFE, CISA
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Michael Owen Clayton, CPA, CISA, CFE, CIDA (Audit Manager)

The following members of the State Auditor’s staff performed the audit of the Schedule of Expenditures of Federal Awards:

- Adam K. Ryan (Project Manager)
- Adam Berry, CFE (Assistant Project Manager)
- Brandy Corbin
- Rebecca Franklin, CFE, CISA, CGAP
- Allison Fries, CFE
- Rachel Goldman, CPA
- Lauren Ramsey
- Daniel Thu
- Ann E. Karnes, CPA (Quality Control Reviewer)
- Becky Beachy, CIA, CGAP (Audit Manager)

Agencies and Higher Education Institutions Audited

Financial accounts were audited at the following agencies:

- Health and Human Services Commission.
- Office of the Comptroller of Public Accounts.
- Office of the Governor.
- Texas Education Agency.
- Texas Workforce Commission.

Schedule of Expenditures of Federal Awards at the following agencies and higher education institutions were audited by either the State Auditor's Office or CLA:

- Department of Agriculture.
- Department of Family and Protective Services.
- Department of Housing and Community Affairs (auditors performed only prior-year finding follow-up work).
- Department of State Health Services.
- General Land Office.
- Health and Human Services Commission.
- Office of the Attorney General.
- Sam Houston State University.
- Texas A&M University.
- Texas Division of Emergency Management.
- Texas Education Agency.
- Texas Southern University.
- Texas State University.
- Texas Tech University.
- Texas Workforce Commission.

- The University of Texas at Arlington.
- The University of Texas at Austin.
- The University of Texas at El Paso.
- The University of Texas Rio Grande Valley.
- The University of Texas at San Antonio.
- The University of Texas M.D. Anderson Cancer Center (auditors performed only prior-year finding follow-up work).
- The University of Texas Medical Branch at Galveston (auditors performed only prior-year finding follow-up work).
- The University of Texas Southwestern Medical Center (auditors performed only prior-year finding follow-up work).
- University of Houston.
- University of North Texas.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Dade Phelan, Speaker of the House, Joint Chair
The Honorable Jane Nelson, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable Greg Bonnen, House Appropriations Committee
The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Boards, Commissions, Chancellors, Executive Directors, and Presidents of the Following Agencies and Higher Education Institutions

Department of Agriculture
Department of Family and Protective Services
Department of Housing and Community Affairs
Department of State Health Services
General Land Office
Health and Human Services Commission
Office of the Attorney General
Office of the Comptroller of Public Accounts
Sam Houston State University
Texas A&M University
Texas Division of Emergency Management
Texas Education Agency
Texas Southern University
Texas State University
Texas Tech University
Texas Workforce Commission
The University of Texas at Arlington
The University of Texas at Austin
The University of Texas at El Paso
The University of Texas Rio Grande Valley
The University of Texas at San Antonio
The University of Texas M.D. Anderson Cancer Center
The University of Texas Medical Branch at Galveston
The University of Texas Southwestern Medical Center
University of Houston
University of North Texas



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**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Audit and Compliance

ITEM: Report on University of Houston System, UH System Support Organizations, FY 2020

- Compliance Review of UH System Support Organizations
- UH System Support Organizations Report

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

Board of Regents Policy 32.06 requires an annual report on compliance of private support organizations and foundations. The attached Compliance Review of UH System Support Organizations identifies all required annual information that has been received by UHS. The attached UHS System Support Organizations Report summarizes the investment activity and financial activity of each of the foundations.

SUPPORTING

DOCUMENTATION: UH System Support Organizations, FY 2020

- Compliance Review of UH System Support Organizations
- UH System Support Organizations Report

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



CHIEF AUDIT EXECUTIVE Phillip W. Hurd

4/30/2021

DATE



CHANCELLOR Renu Khator

5/17/2021

DATE

SYSTEM SUPPORT ORGANIZATIONS

As of May 10, 2021

	University of Houston Foundation	UH College of Business Foundation	UH Law Foundation	Houston Public Media Foundation	Foundation for Education & Research in Vision	UH Alumni Association	Houston Cougar Foundation
Articles of Incorporation and Bylaws ⁽¹⁾	√	√	√	√	√	√	√
Current List of Board Members ⁽²⁾	√	√	√	√	√	√	√
Audited Financial Report for FY2020 ⁽³⁾ (Date Completed)	√ January 2021	√ April 2021	√ January 2021	√ March 2021	√ February 2021	√ January 2021	√ April 2021
IRS Form 990 for FY2020 (Calendar Year 2019) ⁽⁴⁾ (Date Completed)	√ April 2021	Update by early May 2021	Expected by late June / early July 2021	√ April 2021	Expected by June 2021	√ January 2021	Expected by May 12 2021
Donor Gift Information ⁽⁵⁾	√	√	√	√	√	√	√
Written Investment Policies ⁽⁶⁾	√	√	√	√	√	√	√
Updated State Disclosure Statement for Outside Financial Advisors ⁽⁷⁾	√ April 2021	Does Not Use External Advisors	√ April 2021	Does Not Use External Advisors	√ April 2021	√ March 2021	√ April 2021
Date of Most Recent Signed Agreement And/or Extension Agreement	February, 2014 September, 2020	October, 2013 October, 2019	February, 2014 September, 2020	October, 2013 September, 2020	February, 2014 September, 2020	February, 2021	November, 2020
Conflicts of interest policy and certification of Trustee/Director compliance ⁽⁸⁾	√ April 2021	√ October 2020	√ December 2020	√ April 2021	√ April 2021	√ March 2021	√ April 2021

√ Indicates compliance item has been satisfied.

Note 1: SAM 08.A.02 reporting requirement:

(1) At the time the original agreement is established and whenever there are changes to either document. [§ 4.1.1] (2) At the time the original agreement is established and whenever there is a change to the membership. [§ 4.1.2] (3) Within 120 days of the end of the support organization's fiscal year. [§ 4.1.4]

(4) Within 30 days after its filing. [§ 4.1.5]

(5) Each month or as directed otherwise by the System Office of Development. [§ 4.1.9]

(6) Annually by January 31. [§ 4.1.6]

(7) No later than January 31 of each year, consistent with the Texas State Auditor's Office Uniform Disclosure Form. [§ 4.1.7]

(8) Annually by October 31 of each year, within 60 days of appointment

University of Houston System Support Organizations Report For the Fiscal Year 2020

All of the recognized support organizations of the University of Houston System are organized as nonprofit corporations under the Internal Revenue Code §501(c)(3), the Texas Business Organizations Code Chapter 22, and the Texas Government Code §2255.001. The Regents of the University of Houston System have a fiduciary duty of obedience, loyalty, and due care to the System. Though the Regents do not have an independent fiduciary duty to independent support organizations, their existing fiduciary duty extends by agreement to the policies controlling the funds and activities of these organizations. The provisions we have included in the support organization agreements help ensure that the Regents meet these responsibilities. The agreements contain provisions addressing areas such as ethical conduct, conflict of interest, auditing, gift reporting, adherence to federal, state, and local laws, as well as adherence to UH policies and procedures. Board of Regents Policy 32.06 sets forth the specific items to be included.

The University of Houston System has seven active support organizations: University of Houston Foundation, University of Houston College of Business Foundation, University of Houston Law Foundation, Houston Public Media Foundation (formerly Association for Community Broadcasting), Foundation for Education and Research in Vision, University of Houston Alumni Association Foundation (formerly University of Houston Alumni Association), and Houston Cougars Foundation (formerly Houston Athletics Foundation). The Board of Regents policy on private support organizations and foundations provides that such entities must enter into a written agreement with the Board that addresses various administrative, reporting, and accountability requirements. The system policy on private support organizations and foundations requires for such entities to annually provide financial reports, tax returns, gift information, and other financial information as requested. These policies and the Board of Regents Audit and Compliance Committee charter require an annual compliance report from the UH System to the Board on the compliance of the support organizations with the agreements. This annual compliance report is presented at the Audit and Compliance Committee meeting in May of each year. This report indicates the status of the receipt of all requested information. The Office of University Advancement performs follow-up procedures to help ensure that all requested information is received. During summer of each year, the UH System Treasurer's Office requests information on each support organization's investment activity and returns in order to respond to the annual survey conducted by the National Association of College and University Business Officers. The Treasurer's Office also annually requests from the foundations the financial advisor disclosure requirements that are in the format prescribed by the State Auditor's Office.

The attached analysis summarizes the investment activity and the financial activity. A review of these analyses and the underlying investment reports, financial reports, and tax returns reveal the following:

- Each of the foundations manages their own investments. The total amount of investments managed by these foundations was approximately \$231 million as of August 31, 2020. The investment returns of the foundations range from 1.20% to 12.68% for the year ending August 31, 2020.
- The foundations paid professional investment fees during fiscal year 2020.
- Five Foundations have full or part-time employees: UH Foundation, UH College of Business Foundation, Foundation for Education and Research in Vision, Houston Public Media Foundation and UH Law Foundation.
- All of the foundations have fiscal years ending on August 31st, the University's state-mandated fiscal year end.
- The accounting and auditing firms did not consistently classify expenditures in the same category on their financial statements or in the tax returns, thus making comparability rather difficult in some situations.

University of Houston System
Affiliated Support Organizations and Foundations
Summary of Operations
For The Fiscal Year 2020
As of May 10, 2021

Support Organization Name	University of Houston Foundation	University of Houston College of Business Foundation	University of Houston Law Foundation	Houston Public Media Foundation	Foundation for Education and Research in Vision	University of Houston Alumni Association Foundation	Houston Cougars Foundation
Auditor	Blazek & Vetterling; Houston	BKD, LLP; Houston	Blazek & Vetterling; Houston	BKD, LLP; Houston	PWR CPA, LLP Houston	Briggs & Veselka Co.; Houston	HAM, Langston & Brezina LLP; Houston
Tax Accountant	Blazek & Vetterling; Houston	BKD, LLP; Houston	Blazek & Vetterling; Houston	BKD, LLP; Houston	Wrinkle, Gardner & Company, P.C.	Briggs & Veselka Co.; Houston	Cooper CPA Group, PC; Houston
Financial Data, as of	<u>8/31/2020</u>	<u>8/31/2020</u>	<u>8/31/2020</u>	<u>8/31/2020</u>	<u>8/31/2020</u>	<u>8/31/2020</u>	<u>8/31/2020</u>
Assets							
Cash & investments	\$ 158,131,410	\$ 47,060,528	\$ 30,656,494	\$ 2,637,087	\$ 8,397,397	\$ 9,051,773	\$ 3,603,860
Other assets	473,781	8,024,996	1,971,093	569,060	13,691	381,595	108,032
Total Assets	<u>\$ 158,605,191</u>	<u>\$ 55,085,524</u>	<u>\$ 32,627,587</u>	<u>\$ 3,206,147</u>	<u>\$ 8,411,088</u>	<u>\$ 9,433,368</u>	<u>\$ 3,711,892</u>
Liabilities	\$ 10,578,148	\$ 136,657	\$ 52,857	\$ 487,333	\$ 85,238	\$ 94,309	\$ 18,350
Net Assets	<u>\$ 148,027,043</u>	<u>\$ 54,948,867</u>	<u>\$ 32,574,730</u>	<u>\$ 2,718,814</u>	<u>\$ 8,325,850</u>	<u>\$ 9,339,059</u>	<u>\$ 3,693,542</u>
Revenues							
Contributions (gifts)	\$ 8,608,000	\$ 15,220,031	\$ 3,538,705	\$ 11,751,349	\$ 684,458	\$ 635,799	\$ 83,816
Investment income	3,636,233	4,858,614	2,357,242	(6,647)	799,708	354,358	399,913
Other	957,005	1,520,882	446,225	4,207,585	770,451	1,878,433	0
Total Revenues	<u>\$ 13,201,238</u>	<u>\$ 21,599,527</u>	<u>\$ 6,342,172</u>	<u>\$ 15,952,287</u>	<u>\$ 2,254,617</u>	<u>\$ 2,868,590</u>	<u>\$ 483,729</u>
Expenses, including gifts-in-kind	<u>\$ 9,455,394</u>	<u>\$ 4,601,893</u>	<u>\$ 2,910,532</u>	<u>\$ 16,730,828</u>	<u>\$ 961,967</u>	<u>\$ 2,569,017</u>	<u>\$ 5,387,313</u>
Investments – MV as of August 31, 2020 (1)							
Investments	\$ 138,809,933	\$ 45,207,693	\$ 29,292,338	\$ 1,672,245	\$ 5,254,012	\$ 3,598,572	\$ 7,896,372
Return (1-yr)*	2.38%	12.68%	12.50%	2.38%	4.30%	4.60%	1.20%
Management Fees	\$ 578,055	\$ 0	\$ 51,009	\$ 7,048	\$ 28,672	\$ 41,016	\$ 50,004
Mgt Fees as a % of total investment	0.416%	0	0.174%	0.421%	0.546%	1.140%	0.633%
Investment Return FY18*	7.4%	-3.9%	9.4%	4.6%	5.5%	9.9%	4.8%
Investment Return FY19*	4.4%	3.9%	10.9%	4.4%	11.8%	10.1%	6.7%
Gifts and Pledges to Foundation (2)							
Received in FY20	\$ 8,901,479	\$ 15,683,605	\$ 4,742,952	\$ 27,111,906	\$ 903,076	\$ 681,982	\$ 1,620

(1) Source: Data provided by UHS Treasurer's Office.

(2) Source: Data provided by University Advancement Division.

(3) FY2020 IRS Form 990 not available at this time.

* Percentage provided by Foundation

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Audit and Compliance

ITEM: Report on University of Houston System, Internal Audit Reports

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Internal Audit Reports issued since the February 25, 2021 Audit & Compliance Committee Meeting of the Board of Regents are:

- University of Houston System, Construction and Other Contracts Requiring Board of Regents' Approval, Activity from January 1, 2021 to March 31, 2021;
- University of Houston-Clear Lake, Export Controls

The Internal Audit Reports included will be filed with the Governor's Office of Budget, Planning, and Policy; the State Auditor's Office; and the Legislative Budget Board, within the next 30 days, as required by the Texas Government Code, Section 2102.0091.

SUPPORTING DOCUMENTATION: Internal Audit Reports

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



CHIEF AUDIT EXECUTIVE Phillip W. Hurd

4/30/2021
DATE



CHANCELLOR Renu Khator

5/17/2021
DATE

UNIVERSITY OF HOUSTON SYSTEM INTERNAL AUDITING DEPARTMENT

INTERNAL AUDIT REPORTS

AR2021-06 Construction and Other Contracts Requiring BOR Approval
AR2021-07 University of Houston-Clear Lake, Export Controls

Note: These internal audit reports are submitted to the Board of Regents and the Chancellor for their review in order to comply with the Board of Regents policy and the Texas Government Code, Section 2102.008. These internal audit reports are also submitted to the Governor's Office of Budget, Planning, and Policy; the State Auditor; and the Legislative Budget Board in order to comply with the Texas Government Code, Section 2102.0091.

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM

CONSTRUCTION AND OTHER CONTRACTS REQUIRING BOARD OF REGENTS APPROVAL

Activity from January 1, 2021 to
March 31, 2021

REPORT NO. AR2021-06



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

MEMORANDUM

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

Dr. Renu Khator
Chancellor/President, UHS/UH

FROM: Phillip W. Hurd
Chief Audit Executive

DATE: April 23, 2021

SUBJ: Internal Audit Report – Construction and Other Contracts Requiring Board of Regents Approval

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. This report is summarized as follows:

Executive Summary:

The internal audit review of procurement of construction and other contracts requiring Board of Regents approval covers the time period from January 1, 2021 through March 31, 2021. For each project, we review the following: 1. the solicitation documents posted on the State Comptroller's Electronic State Business Daily, the solicitation requirements checklist, subcontracting probability form, and the HUB subcontracting compliance form to determine whether the appropriate evaluation criteria was used by the Purchasing Department/selection team evaluation members; 2. the Purchasing Department's compilation of the selection team members' rankings of RFQ / RFP for clerical accuracy and agreement of evaluation criteria to RFQ / RFP and evaluation criteria provided to selected firms in instances where RFP's were not applicable; 3. the Purchasing Department's recommendation of RFQ / RFP evaluations to the VC/VP for reasonableness; 4. the VC/VP evaluation of the Purchasing Department's recommendation of RFQ / RFP for reasonableness; 5. the invitation to bid or sole source justification form, if applicable, for reasonableness/completion. We noted no unusual items or other matters that we considered non-compliant with university policies and procedures or state statutes.

This audit report is scheduled to be included in the agenda materials for the May 20, 2021 meeting of the Audit and Compliance Committee of the Board of Regents. Please let me know if you have any questions.

Attachments

University of Houston System
Internal Auditing Department
Construction and Other Contracts Requiring Board of Regents Approval
January 1, 2021 through March 31, 2021

Background: UHS procures construction services under the provisions of the Texas Education Code, Sections 51.778 – 51.785. These statutes address the following construction contract methods: Design-Build, Construction Manager-Agent, Construction Manager-At-Risk, Construction Services through Competitive Sealed Proposals and Job Order Contracts. The UHS Facilities, Planning and Construction Department and the Purchasing Department have developed policies and procedures to help ensure compliance with these statutes. For major construction projects, UHS primarily uses the Design-Build and Construction Manager-At-Risk contract methods. The Internal Auditing Department reviews the construction RFQ / RFP evaluation process on an ongoing basis. The Internal Audit Department also reviews the procurement process for other contracts requiring Board of Regents approval (RFQ/RFP, Invitation to Bid, and Sole Source).

Objective: The objectives of this review are to determine whether UHS is complying with its policies and procedures and the Texas Education Code in selecting its contractors for its major construction projects and other contracts requiring Board of Regents approval.

Scope of Work: The internal audit review of procurement of construction and other contracts requiring Board of Regents approval covers the time period from January 1, 2021 through March 31, 2021.

Audit Procedures: For each solicitation we review the following:

1. The solicitation documents posted on the State Comptroller's Electronic State Business Daily and the solicitation requirements checklist and subcontracting probability form and HUB subcontracting compliance form to determine whether the appropriate evaluation criteria was used by the Purchasing Department/selection team evaluation members.
2. The Purchasing Department's compilation of the selection team members' rankings of RFQ / RFP for clerical accuracy and agreement of evaluation criteria to RFQ / RFP and evaluation criteria provided to selected firms in instances where RFP's were not applicable.
3. The Purchasing Department's recommendation of RFQ / RFP evaluations to the VC/VP for reasonableness.
4. The VC/VP evaluation of the Purchasing Department's recommendation of RFQ / RFP for reasonableness.
5. The invitation to bid or sole source justification form, if applicable, for reasonableness/completion.

Appendices: Attached is an analysis of internal audit activity related to the construction projects and other contracts requiring Board of Regents approval award evaluations (Appendix 1), the Purchasing Department Flowchart for major construction projects (Appendix 2), the Purchasing Department Flowchart for other contracts requiring board approval (Appendix 3).

Conclusion: We noted no unusual items or other matters that we considered non-compliant with university policies and procedures or state statutes.



Philip W. Hurd
Chief Audit Executive
203 March 31, 2021

UHS Construction and Other Contracts Requiring Board of Regents Approval
Internal Audit Activity
January 1, 2021 to March 31, 2021

<u>Project or Contract Description</u>	<u>Solicitation Type</u>	<u>(\$ Millions)</u>	<u>BOR Approval</u>		<u>Internal Audit Review</u>	
			<u>FCMP Comm. (Scope) Date</u>	<u>F&A Comm. (Financing) Date</u>	<u>Initiated</u>	<u>Completed</u>
<u>Construction Projects \$10 Million and Over</u>						
UH - John M. O'Quinn Law Building - FE	ITB	1.5	8/22/2019	8/22/2019		
UHV - Health and Wellness Center - AE	RFQ	2.0	8/20/2020	8/20/2020	✓	✓
UHV - Health and Wellness Center - CMAR	RFP	16.0	8/20/2020	8/20/2020		
UH - Science, Engineering, & Research HVAC Upgrades and Roof Replacement - AE	RFQ	1.1	8/20/2020	8/20/2020		
UH - Science, Engineering, & Research HVAC Upgrades and Roof Replacement - CMAR	RFP	10.6	8/20/2020	8/20/2020		
<u>Construction Projects Over \$1 Million and Under \$10 Million</u>						
UHS - Road/Parking Maintenance (up to 3 awards at 2.5M/each)	RFP	2.5	N/A	2/28/2019		
UHS - Job Order Contract Services (up to 5 awards)	RFP	50.0	N/A	5/16/2019	✓	✓
UH - Lighting & Security Upgrades	RFP	3.8	N/A	8/20/2020		
UH - General Services Roof Replacement	RFP	4.5	N/A	8/20/2020	✓	
UH - Multiple Fire Alarm Upgrades	SS	2.2	N/A	8/20/2020		
UHS - Architectural Services Continuing Services Agreement (up to 10 awards)	RFP	15.0	N/A	12/3/2020		
UH - MDAL Roof Replacement & Water Intrusion Repairs	RFP	2.5	N/A	2/25/2021	✓	✓
UH - CWM Center for the Arts Wortham Theater Roof Repair	RFP	2.0	N/A	2/25/2021		
<u>Non-Construction Contracts Over \$1 Million</u>						
UH - Housing Access Control	RFP	4.0	N/A	2/27/2020		
UHD - Campus Elevator Maintenance and Modernization	RFP	2.3	N/A	2/27/2020		
UHS - CRM for Enrollment Management	RFP	1.5	N/A	5/21/2020	✓	✓
UH - Copier Lease and Maintenance	RFP	4.5	N/A	12/3/2020	✓	✓
UH - Campus and Networking Connectivity	RFP	1.5	N/A	12/3/2020		
UH - Oil and Gas Analysis Equipment	SS	1.1	N/A	2/25/2021		

CMAR - Construction Manager at Risk

AE - Architectural and Engineering Services (RFQ only)

SS - Sole Source

ITB - Invitation to Bid

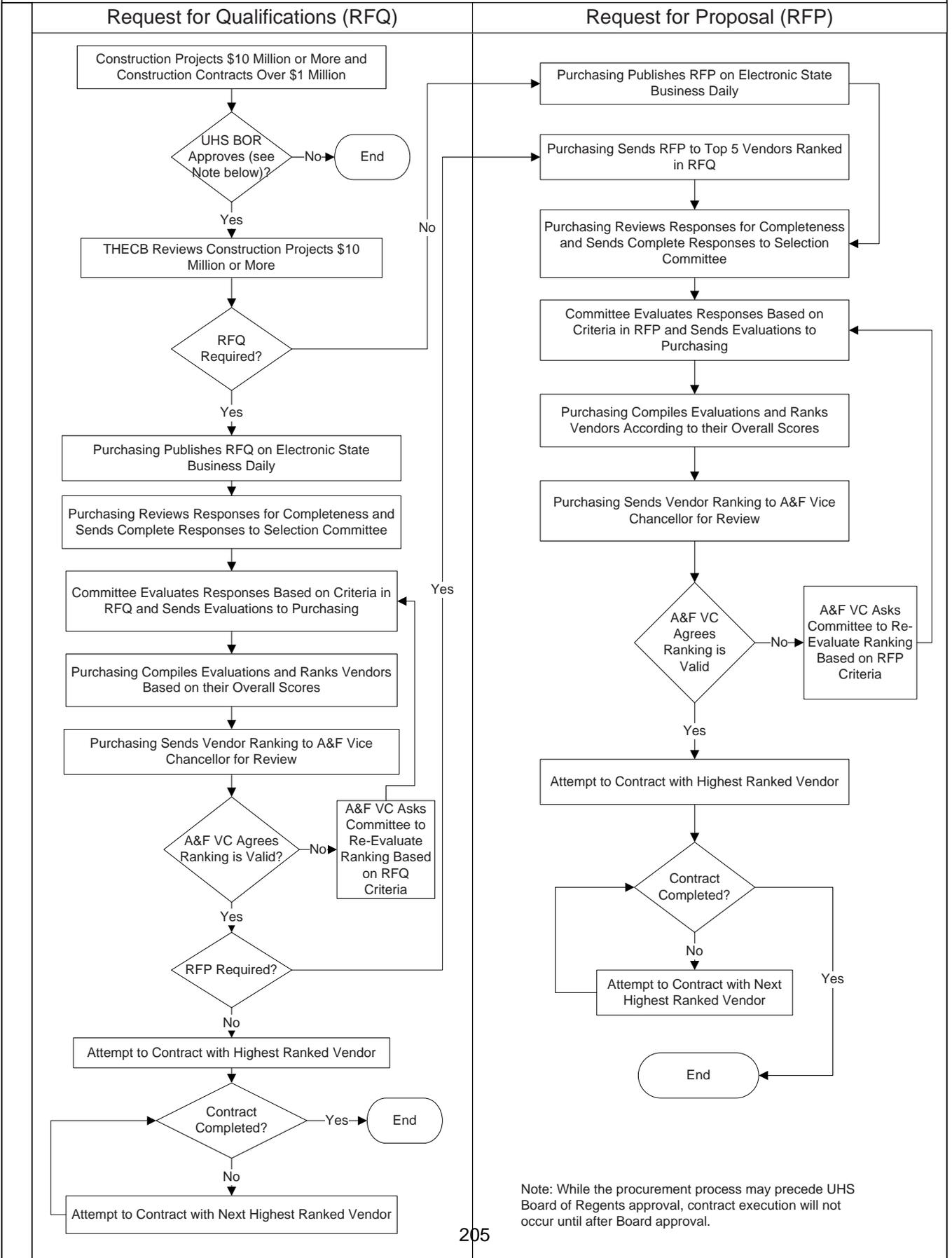
✓ - Initiated or Completed audit procedures, as specified in report.

RFP - Request for Proposal

RFQ - Request for Qualifications

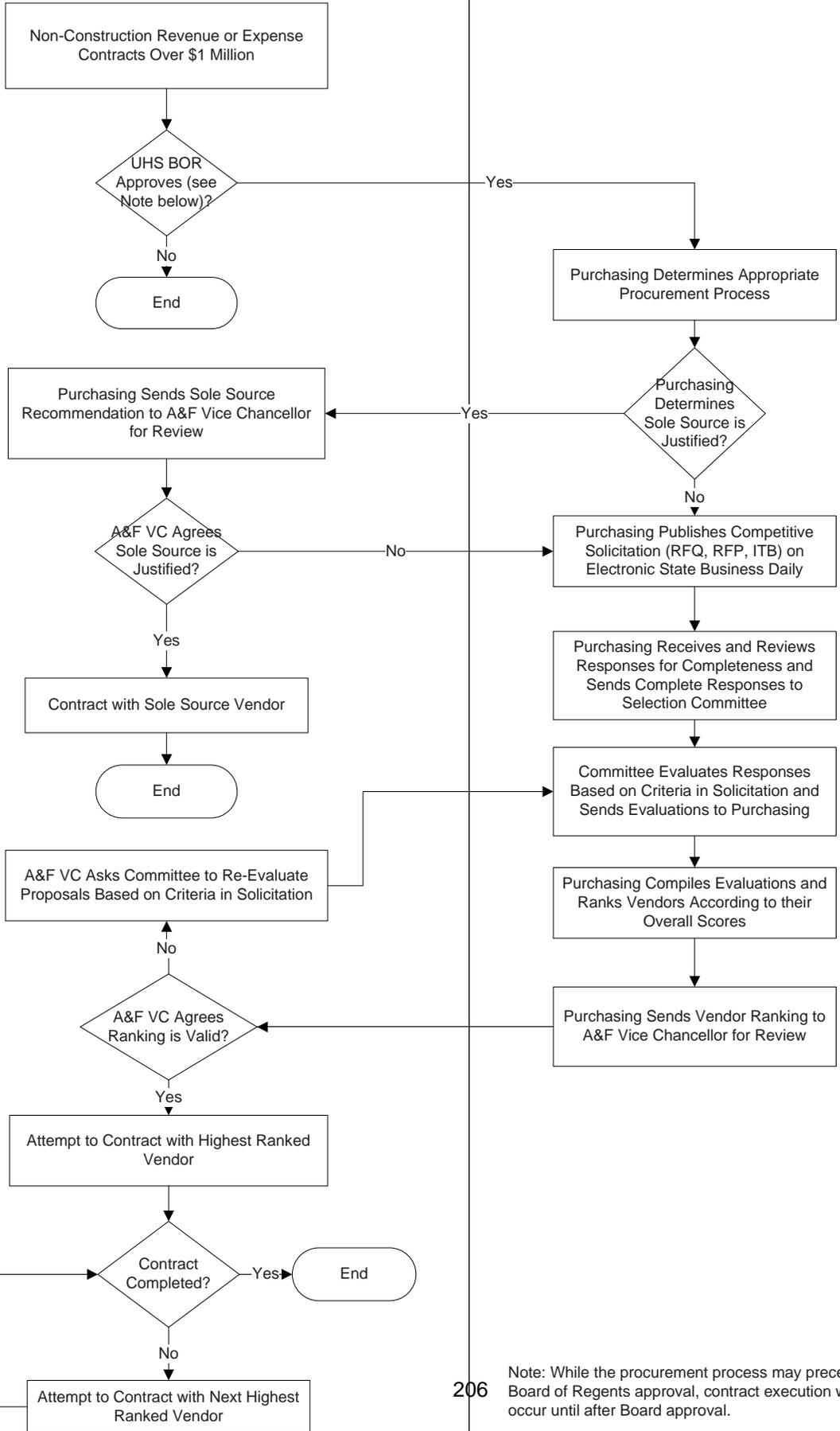
FE - Furnishings and Equipment

University of Houston System Construction Projects \$10 Million or More and Construction Contracts Over \$1 Million



Approval Process

Procurement Process



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Note: While the procurement process may precede UHS Board of Regents approval, contract execution will not occur until after Board approval.



Report to the Audit and Compliance Committee of
the UHS Board of Regents on:
The University of Houston-Clear Lake Export Controls
AR2021-07

UNIVERSITY of
HOUSTON

INTERNAL AUDITING DEPARTMENT

UNIVERSITY OF HOUSTON-CLEAR LAKE

EXPORT CONTROLS

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EXECUTIVE SUMMARY

Overview and Scope Summary

Export controls are laws and regulations established by the United States Federal Government agencies to restrict the export of goods, technology, and information out of the country for reasons of national security or protection of trade. The regulations fall under the following export regulations, categories, and agencies:

- Export Administration Regulations (EAR): associated with exporting sensitive items while ensuring that trade can still occur between the US and foreign countries.
- International Traffic in Arms Regulations (ITAR): prohibit the export of sensitive military articles and services.
- Commerce Control List (CCL): category list of items that have both commercial and military applications.
- Office of Foreign Assets Control (OFAC): restricts commerce with certain foreign countries, companies, and individuals.

The scope for this audit was FY18 - FY20 for UHCL. Additionally, we focused on recommending improvements that will help ensure our ability to properly monitor export controls as well as mitigate risks related to foreign influence and the protection of research data presently and in the future as our research activities continue to grow.

Observations:

During audit, the Department of Internal Auditing focused on evaluating the various processes related to managing export controls. Although primarily related to research activity, export controls extend to other common university activities occurring across the university such as international travel, international shipping/receiving, protection of research data, and online courses involving individuals from other countries. We identified the need to develop policies and an education program related to export control matters, enhance controls that monitor research activity, increase awareness of laws, regulations (and associated penalties for non-compliance) and best practices, and automate processes.

Overall Audit Opinion

There were moderate to significant findings in this report related to the control structure surrounding export control, foreign influence, visiting scholars, and research data protection. These process areas include policies and procedures; education and awareness; international shipping; and international travel.

Recommendations:

UHS IAD recommends the following actions:

1. Management should develop policies and procedures for export controls, foreign influence, visiting scholars, research data security, monitoring international travel and shipments from the university, and required training related to the above referenced topics. These policies should define, at a minimum, export control and compliance requirements; UHCL's position on grant contracts with export control language; notification and/or approvals for visiting scholars; protection of research data, etc.; reviews, approvals, and monitoring of international travel; and reviews, approvals and monitoring of international shipping.
2. Management should develop an awareness and education program related to topics such as export controls, foreign influence, international travel, visiting scholars, and research data security. The awareness program should include, at a minimum, knowledge related to a general overview of export controls laws and regulations, allowable exclusions, penalties for non-compliance, foreign influence and research data security, and how these impact the research conducted at UHCL. The education plan should include, at a minimum, an evaluation of training needs as well as who should be required to take the training and how compliance should be monitored.
3. Management should reevaluate the control structure for international shipping requests and institute a process that requires OSP approval prior to shipping.
4. Management should implement a control structure to ensure compliance with System Administrative Memorandum 07.A.08 – Data Classification and Protection. This must include, but not be limited to, elements such as training to staff and faculty regarding the requirements of SAM 07.A.08, review of laptops prior to travelling internationally, and/or a “clean laptop” loaner program.
5. Procedures related to export controls, international shipments, international travel, training, visiting scholars, etc. such as reviews, approvals, monitoring, etc. should be automated, as appropriate.

ANALYSIS OF THE UNIVERSITY OF HOUSTON-CLEAR LAKE EXPORT CONTROLS

INTRODUCTION

The Department of Internal Auditing developed an annual audit plan based upon a system-wide risk assessment to identify significant areas of risk facing the System. All the audits on the plan are conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and International Standards for the Professional Practice of Internal Audit, published by the Institute of Internal Auditors (IIA).

BACKGROUND

The Department of Internal Auditing (IAD) performed a review of export controls at the UHCL.

The Office of Sponsored Programs is responsible for monitoring research activity, corresponding to expenditures of approximately \$1.3 million, to ensure compliance with export controls laws and regulations. The Executive Director of the Office of Sponsored Programs (Executive Director) performs all export control responsibilities, such as, reviewing grant documentation for export control restrictions, providing guidance to faculty and staff, monitoring international travel, assisting in the hiring of foreign faculty and staff, and evaluating the risks of foreign influence.

While the Executive Director handles the above mentioned responsibilities, UHCL primarily relies on self-disclosure by faculty researchers to identify potential export control matters. The Executive Director is responsible for overseeing a staff of five who perform other research administration tasks such as assisting with grant proposals and reviewing grant contracts.

OBJECTIVE AND SCOPE

The primary areas of focus for the Export Controls audit were:

- Compliance with Export Control Laws
- Organizational Structure
- Education and Training
- Grant Execution
- Foreign Influence
- International Travel
- Shipping and Equipment Transfer
- Distance Education

The objective of our analysis was to examine each of these areas for:

- Strength of controls for appropriate risk mitigation of university activities
- Compliance with federal agency export control laws and regulations
- Appropriate organizational resources dedicated to support export controls
- Adequacy of knowledge and awareness of export controls

Information relevant to this audit was obtained through:

- Interviewing OSP and other university personnel
- Reviewing laws, regulations, and other guidance from federal agencies
- Reviewing UHCL policies and procedures

- Reviewing other public research university websites
- Reviewing research grant documentation maintained at the University
- Data obtained from PeopleSoft Finance and Campus Solutions queries

Issue 1 – Policies and Procedures

Objective: To determine if UHCL has policies and procedures in place that are consistent with Federal Government laws and regulations and provide adequate controls and oversight to identify and monitor research activities with export control requirements, possible foreign influence, visiting scholars, and protection of research data.

Criteria: Regulations established by the Federal Government protect U.S. security and research interests through restricting certain items and information from being exported to certain foreign countries. In addition, best practices call for restricting the sharing of information with sanctioned countries and individuals associated with the government of those countries.

Risk: If UHCL does not operate according to export controls policies and procedures that are consistent with laws and regulations, it is at risk of violations possibly resulting in penalties and fines, loss of research funding, damaged reputation, and loss of research data.

Observation: The UHCL OSP has limited policies or procedures related to export controls, foreign influence, visiting scholars, or protection of research data from foreign influence.

Projects Requiring Export Control Compliance:

Research grants solicited and awarded at UHCL fall under the fundamental research definition and do not contain specific language requiring those grant contracts to comply with specific aspects of export control requirements. Thus, EAR and ITAR do not apply specifically to grant contracts awarded to UHCL. The University is still required to comply with EAR and ITAR regarding aspects, such as restricting work being performed outside the U.S., shipping certain items outside of the U.S., encryption software, participation/access of certain foreign individuals, etc.

UHCL has no current research projects that specifically require export control compliance nor does UHCL have the facilities to properly comply with regulations should a research project be undertaken requiring specific export control compliance.

Foreign Influence:

Foreign influence in research has become increasingly problematic and U.S. government sponsors have expressed recent concerns regarding the risk of foreign influence on research conducted within the U.S. and creating methods to mitigate some of the risks faced by academic research institutions.

OSP is reliant upon faculty researchers to receive notification of visitors. Because notification of visitors doesn't generally occur, UHCL has no way to monitor the locations visited or the information shared by the faculty host with the visitor. Once on campus, the visitor may have access to the locations and/or information that the faculty member allows them to have access to.

For international travel and shipping, the UHCL's Travel Office's Travel Guidelines require review and approval by OSP for all international travel (see International Travel observation below) and the General Services Department requires a UHCL Postal Expenditure Form for international shipping). However, OSP reviews and approves the travel form but not the shipping form. Neither the travel nor shipping risks and/or best practices are communicated to faculty or staff through policies or educational platforms.

Conclusion: There is a significant control weakness related to policies and procedures for export controls, foreign influence, visiting scholars, and protection of research data.

Issue 2 – Awareness and Education

Objective: To determine if UHCL has developed an adequate awareness and education plan to train faculty researchers on export controls laws and regulations and if management and faculty maintain an appropriate awareness when conducting research and sharing results with the international scientific community.

Criteria: Best business practices suggest that faculty researchers must be knowledgeable of compliance expectations and aware of when they need to consult with the OSP for additional guidance.

Risk: Inadequately trained faculty and staff are prone to unknowingly commit violations which exposes the university and faculty to fines and penalties and may result in loss of research funding, loss of research data, and a damaged reputation

Observation: OSP website contains information related to research activities such as human subjects and animal care but doesn't discuss export controls. Rather, OSP is available for faculty researchers to contact them directly with questions related to export controls. The University of Houston offers information related to export controls on its website related to a general overview of export controls laws and regulations, allowable exclusions, penalties for non-compliance, and travel, etc.

In addition, OSP offers training on human and animal subjects through Collaborative Institutional Training Institute (CITI Program) operated by the University of Miami, which provides web-based training on a number of research topics including research ethics and compliance with topics such as human and animal subjects and export controls. However, OSP utilizes the CITI Program for training faculty conducting research on animal and human subjects but the subscription level purchased by UHCL does not include access to the export controls training modules.

Conclusion: There is an opportunity for UHCL to improve management and faculty awareness of export controls laws, regulations and best practices. Additionally, there is an opportunity to establish an education program designed to reinforce knowledge related to export controls, foreign influence, and research data protection.

Issue 3 – International Shipping Requests

Objective: To determine if UHCL has policies and procedures in place to effectively monitor outbound shipments to sanctioned international destinations.

Criteria: Laws and regulations control equipment and information exported by a university. Best practices have identified risks associated with monitoring outbound shipments.

Risk: If faculty have the ability to export information or equipment to restricted persons or countries, the university is at risk of committing export controls violations that may result in fines and/or penalties for the university and/or faculty, loss of research funding, loss of research data, and damaged reputation.

Observation: The UHCL printing and mail room services provided through the General Support Services Office requires all shipments to have a completed UHCL Postal Expenditure Form to document the business purpose and department information. The form includes a signature line for OSP, but based on our review of Postal Expenditure Forms, an employee outside of OSP was signing on that line. Our discussion with OSP management revealed that the signature line was included on the form prior to the current administration. OSP was unaware of the form and did not review the form or monitor any outbound shipments to international destinations.

Conclusion: There is a significant control weakness and opportunity to enhance the monitoring of shipments to international destinations.

Issue 4 – International Travel

Objective: To determine if an adequate review of international travel is occurring prior to a trip and if UHCL has policies and procedures in place to effectively monitor export of information from university-issued, personal laptops, or other portable devices during international travel to sanctioned locations.

Criteria: Best practices suggest that adequately reviewing international travel requests prior to the trip can help a university avoid export controls violations when a faculty researcher traveling internationally shares information with individuals from sanctioned countries. Additionally, best practices provide guidance on how to avoid theft of computer and research equipment or having a computer illegally accessed during international travel.

Risk: Faculty researchers sharing information with individuals from sanctioned countries, or researchers that maintain information on a personal laptop, their primary university-issued laptop, or portable storage devices on international trips expose the university to risks of having information illegally accessed. Both instances can result in export controls violations, loss of research data, loss of research funding, and damaged reputation.

Observation: UHCL utilizes an Export Controls and Travel Embargo Form that must be completed by the traveler and attached to the Travel Authorization Form. Both forms have a signature line for OSP, and UHCL Travel Guidelines indicate when OSP review and approval is required. For international trips, OSP reviews the travel itinerary, conference meeting schedule, or other relevant information regarding the purpose of the trip provided by the traveler.

The process for review and approval is a trust based manual control process that relies upon travelers and/or departments to identify the required approvals and route the forms via email to obtain the necessary approvals.

In addition, the Export Controls and Travel Embargo Form contains questions that would assist OSP in determining if the travel may involve information, equipment, etc., that may be subject to export control laws. However, because faculty researchers have not received appropriate training regarding export controls and travelling internationally, a faculty researcher is unlikely to have the specific knowledge necessary to answer all of the questions on the Export Controls and Travel Embargo form, such as whether or not restricted equipment, materials, software, or technical data will be transported or distributed internationally.

UHCL Travel Guidelines provide a link to U.S. Department of State Travel Warnings, Alerts, & Visa Services, by which a traveler can access travel advisory information for specific areas of travel. The Travel Guidelines are located on the UHCL Travel Office website.

System Administrative Memorandum (SAM) 07.A.08 – Data Classification and Protection, identifies research data necessary to substantiate research results or to satisfy grant-funding requirements, regardless of whether such data was developed by the university or obtained from third parties as Level 1 Data. UHCL did not have a control structure in place to monitor and ensure compliance with SAM 07.A.08, especially regarding faculty researchers travelling internationally. The University does not have a “clean laptop” loaner program which would allow a traveler to check out a “clean laptop” from OSP for any international trips.

Conclusion: There is an opportunity to enhance and automate controls for data security and protection of research information related to possible export control related information and/or foreign influence.

Overall Management Response:

University of Houston Clear Lake Management agrees with the observations, conclusions, and recommendations noted in this audit report. As noted in the attached Action Plan, we intend to implement several changes to adequately address the recommendations.

Recommendations

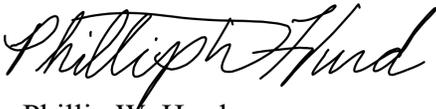
All four issues mentioned in this report reflect moderate to significant control weaknesses related to Export Control policies, procedures, and processes. With the current level of research expenditures, a lower risk exposure exists; however, continued growth of research and other activities at UHCL will increase the risk exposure and relevance in the future. UHCL currently has limited policies and procedures and relies upon trust based controls. Future expected growth discussed in UHCL's Impact 2025 strategic plan includes innovative research and community partnerships that will serve regional, state, and global locations. The objectives include leveraging and increasing the number of collaborations with external parties. These objectives will require the university to implement a more robust system of controls and monitoring procedures to ensure future compliance with governmental agency laws and regulations and risk mitigation. The Department of Internal Auditing recommends the following:

1. Management should develop policies and procedures for export controls, foreign influence, visiting scholars, research data security, monitoring international travel and shipments from the university, and required training related to the above referenced topics. These policies should define, at a minimum, export control and compliance requirements; UHCL's position on grant contracts with export control language; notification and/or approvals for visiting scholars; protection of research data, etc.; reviews, approvals, and monitoring of international travel; and reviews, approvals and monitoring of international shipping.
2. Management should develop an awareness and education program related to topics such as export controls, foreign influence, international travel, visiting scholars, and research data security. The awareness program should include, at a minimum, knowledge related to a general overview of export controls laws and regulations, allowable exclusions, penalties for non-compliance, foreign influence or research data security, and how these impact the research conducted at UHCL. The education plan should include, at a minimum, an evaluation of training needs as well as who should be required to take the training and how compliance should be monitored.
3. Management should reevaluate the control structure for international shipping requests and institute a process that requires OSP approval prior to shipping.
4. Management should implement a control structure to ensure compliance with System Administrative Memorandum 07.A.08 – Data Classification and Protection. This must include, but not be limited to, elements such as training to staff and faculty regarding the requirements of SAM 07.A.08, review of laptops prior to travelling internationally, and/or a “clean laptop” loaner program.
5. Procedures related to export controls, international shipments, international travel, training, visiting scholars, etc. such as reviews, approvals, monitoring, etc. should be automated, as appropriate.

* * * * *

The UHS Department of Internal Auditing would like to thank the UHCL Office of Sponsored Programs for their cooperation and assistance during this audit process.

Sincerely,

A handwritten signature in black ink that reads "Phillip W. Hurd". The signature is written in a cursive, flowing style.

Phillip W. Hurd
Chief Audit Executive
University of Houston System

PWH/pwh/Export Controls Audit

Participating Auditors: Brandee O'Neal and Jeff Collier

UNIVERSITY of HOUSTON
INTERNAL AUDITING DEPARTMENT

Action Item Number	Audit Area	University	Recommendation Summary	Task	Responsible Person	Targeted Date	Status
Issue 1 - Policies and Procedures							
1	Policies and Procedures	UHCL	Management should develop policies and procedures for export controls, foreign influence, visiting scholars, research data security, monitoring international travel and shipments from the university, and required training related to the above referenced topics. These policies should define, at a minimum, export control and compliance requirements; UHCL's position on grant contracts with export control language; notification and/or approvals for visiting scholars; protection of research data, etc.; reviews, approvals, and monitoring of international travel; and reviews, approvals and monitoring of international shipping	Develop and post Export Control Procedures on OSP web site: <ul style="list-style-type: none"> - Overall coordination and site management - Export control compliance requirements - Export control language for grant awards - Procedure for approval and notification of visiting scholars - Protection of research data - Review, Approval and Monitoring of International Travel - Review, Approval and Monitoring of International Shipping - Develop procedures for access to restricted research spaces 	<ul style="list-style-type: none"> - Exec Director, OSP - Exec Director, OSP - Exec Director, OSP AVP for Global Learning & Strategy and CIO - CIO - AVP-Business Operations - AVP-Business Operations - Sr. VP – AA Exec Director, FMC Police Chief 	8/31/2021	
Issue 2 - Awareness and Education							
2	Awareness and Education	UHCL	Management should develop an awareness and education program related to topics such as export controls, foreign influence, international travel, visiting scholars, and research data security. The awareness program should include, at a minimum, knowledge related to a general overview of export controls laws and regulations, allowable exclusions, penalties for non-compliance, foreign influence or research data security, and how these impact the research conducted at UHCL. The education plan should include, at a minimum, an evaluation of training needs as well as who should be required to take the training and how compliance should be monitored.	<ul style="list-style-type: none"> - Add CITI course on Export Compliance to UHCL CITI Contract - Customize CITI Export Compliance Course for learner groups; communicate certification requirements based on role (faculty, staff in various departments, senior leadership) - Send training reminders and CITI registration information at beginning of FY and track dissemination to new employees - Incorporate Export Control training into new employee training for specific units - Monitor training completion and report to division VPs semiannually - Schedule periodic reminders (every semester?) to faculty and staff regarding SAM 07.A.08 	<ul style="list-style-type: none"> - AVP - Academic Affairs - Exec. Director, OSP - Exec. Director, OSP - AVP-Business Operations, Sr. Business Admin. - Exec. Director, OSP - CIO 	8/31/2021	

UNIVERSITY of HOUSTON
INTERNAL AUDITING DEPARTMENT

Issue 3 - International Shipping Requests

3	International Shipping Requests	UHCL	Management should reevaluate the control structure for international shipping requests and institute a process that requires OSP approval prior to shipping	<ul style="list-style-type: none"> - Revise Postage form to require OSP signature for international shipments - Educate General Support Services (GSS) staff on signature requirement 	AVP-Business Operations	8/31/2021	
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Issue 4 - International Travel

4	International Travel	UHCL	Management should implement a control structure to ensure compliance with System Administrative Memorandum 07.A.08 – Data Classification and Protection. This must include, but not be limited to, elements such as training to staff and faculty regarding the requirements of SAM 07.A.08, review of laptops prior to travelling internationally, and/or a “clean laptop” loaner program.	<ul style="list-style-type: none"> - Revise Export Control form for international travel - Develop procedure for use of UHCL laptops prior to international travel - Educate international travelers about the use of personal laptops containing UHCL data - Establish a “clean laptop” loaner program and educate international travelers about its availability - Consistently enforce completion of the Export Control form prior to international travel and return to traveler if incomplete - Hold Travel Expense Form if Export Control Form not submitted with TA prior to international travel 	<ul style="list-style-type: none"> - AVP-Business Operations and Exec Director, OSP - CIO - CIO, AVP, Global Learning & Strategy, and AVP-Business Operations - CIO, AVP, Global Learning & Strategy, and AVP-Business Operations - CBAs and DBAs - AVP-Business Operations 	12/31/2021	
5	International Travel	UHCL	Procedures related to export controls, international shipments, international travel, training, visiting scholars, etc. such as reviews, approvals, monitoring, etc. should be automated, as appropriate	<ul style="list-style-type: none"> - Prepare, distribute, and post checklists of essential review and approval processes in strategic locations - Establish semiannual schedule for auditing compliance with established procedures and advise leadership of recommended corrective action 	<ul style="list-style-type: none"> - AVP-Business Operations - AVP-Business Operations and Exec. Director, OSP 	8/31/2021	