
AGENDA

UNIVERSITY OF HOUSTON SYSTEM AUDIT AND COMPLIANCE COMMITTEE MEETING

DATE: Thursday, May 18, 2023
TIME: 10:15 AM
PLACE: Hilton University of Houston Hotel
Conrad Hilton Ballroom, Second Floor
4450 University Drive
Houston, Texas 77204

Chair: Gregory C. King
Vice Chair: John A. McCall Jr.
Members: Alonzo Cantu
Jack Moore
Ricky Raven
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 Minutes

- February 23, 2023 Audit & Compliance Committee Meeting

Action: Approval
- C. Report on University of Houston System, Institutional Compliance Hotline Report for the three months ended April 30, 2023 4

Action: Information
- D. 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 11

Financial Statements, Years Ended August 31, 2022 and 2021

Action: Information

- E. Report on External Audit Reports - University of Houston System, State Auditor Reports 55
- State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2022, Report No. 23-315 (excerpts)
- State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2022, Report No. 23-555 (excerpts)

Action: Information

- F. Report on University of Houston System, UH System Support Organizations, FY 2022 73
- Compliance Review of UH System Support Organizations
- UH System Support Organizations Report

Action: Information

- G. Report on University of Houston System, Data Analytics Future 77

Action: Information

- H. Report on University of Houston System, Internal Audit Reports 79

Action: Information

- I. Report on Results of the Quality Assessment Review (QAR) of the University of Houston System Internal Audit, 2023 96

Action: Information

II. **Executive Session**

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. Deliberations 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 Hotline Report for the three months ended April 30, 2023

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



4/19/2023

SYSTEM-WIDE COMPLIANCE OFFICER

Susan Koch

DATE



CHANCELLOR

Renu Khator

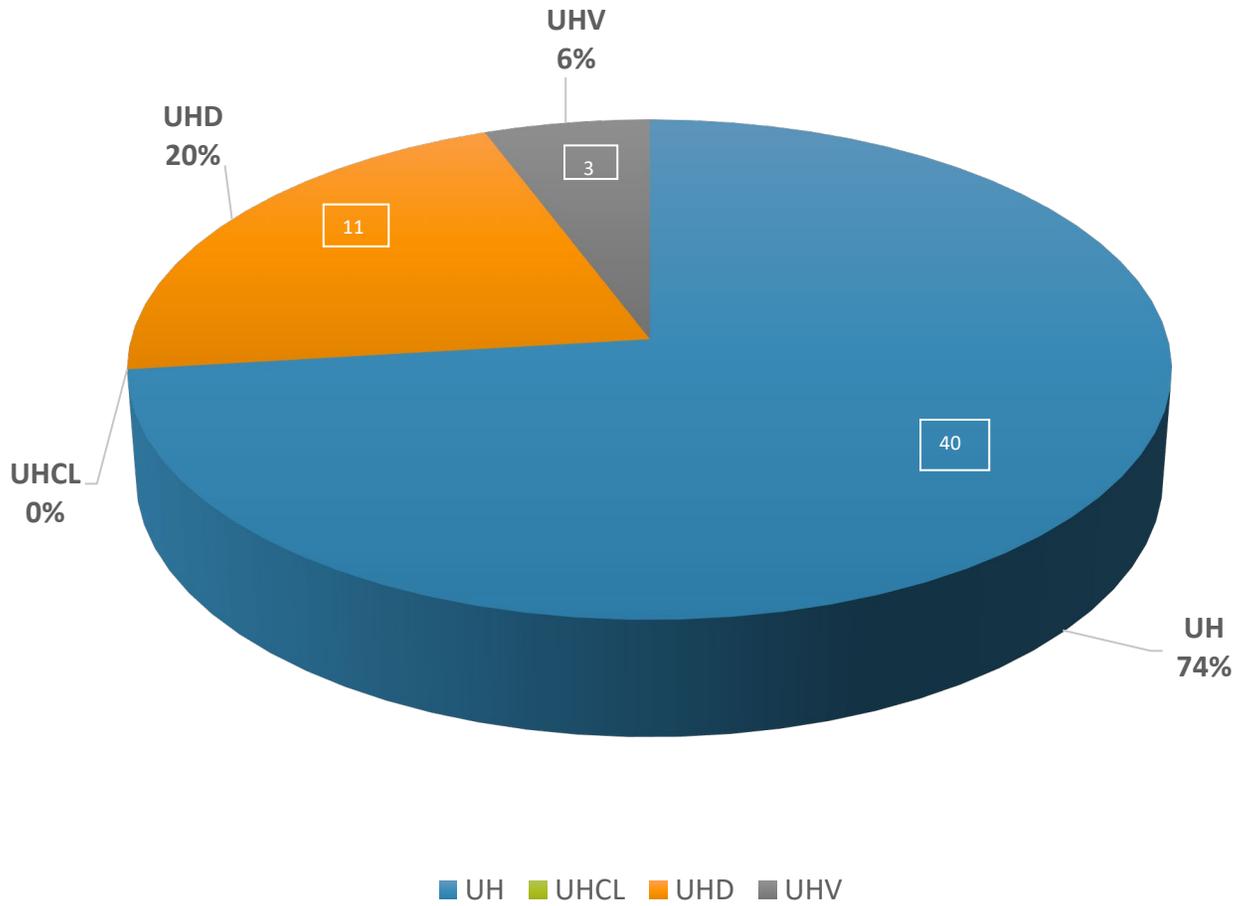
DATE

5/11/23

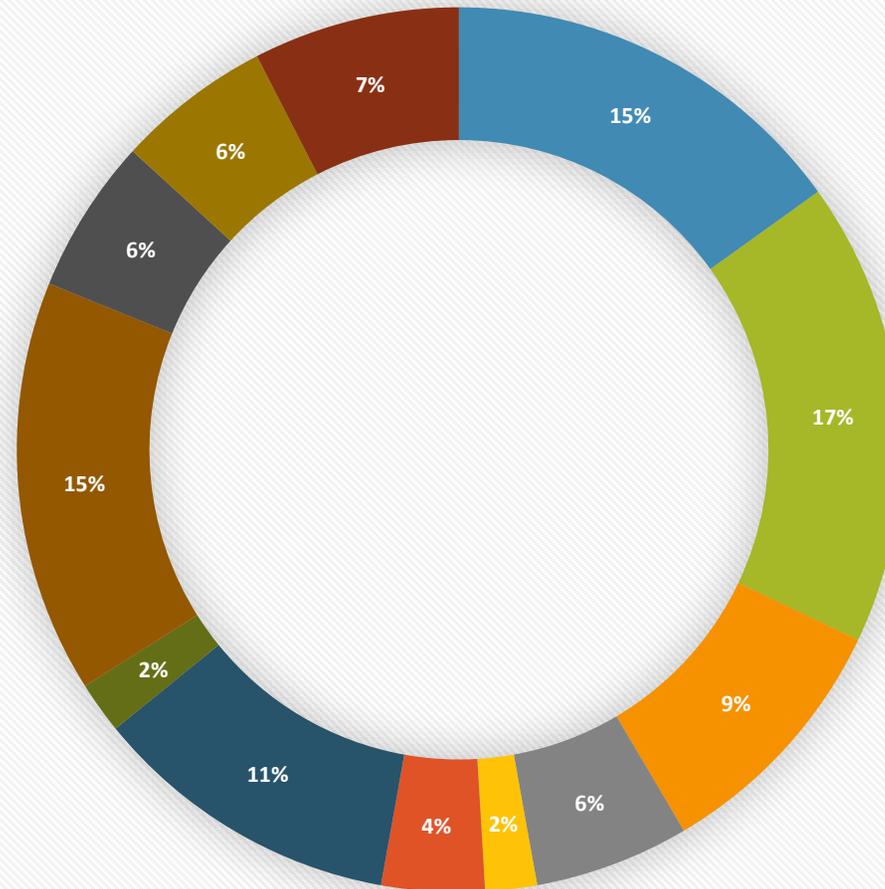
UNIVERSITY OF HOUSTON SYSTEM
Institutional Compliance Hotline Report for the three months ended April 30, 2023

Hotline reports for all Universities

Issues Reported by Institution

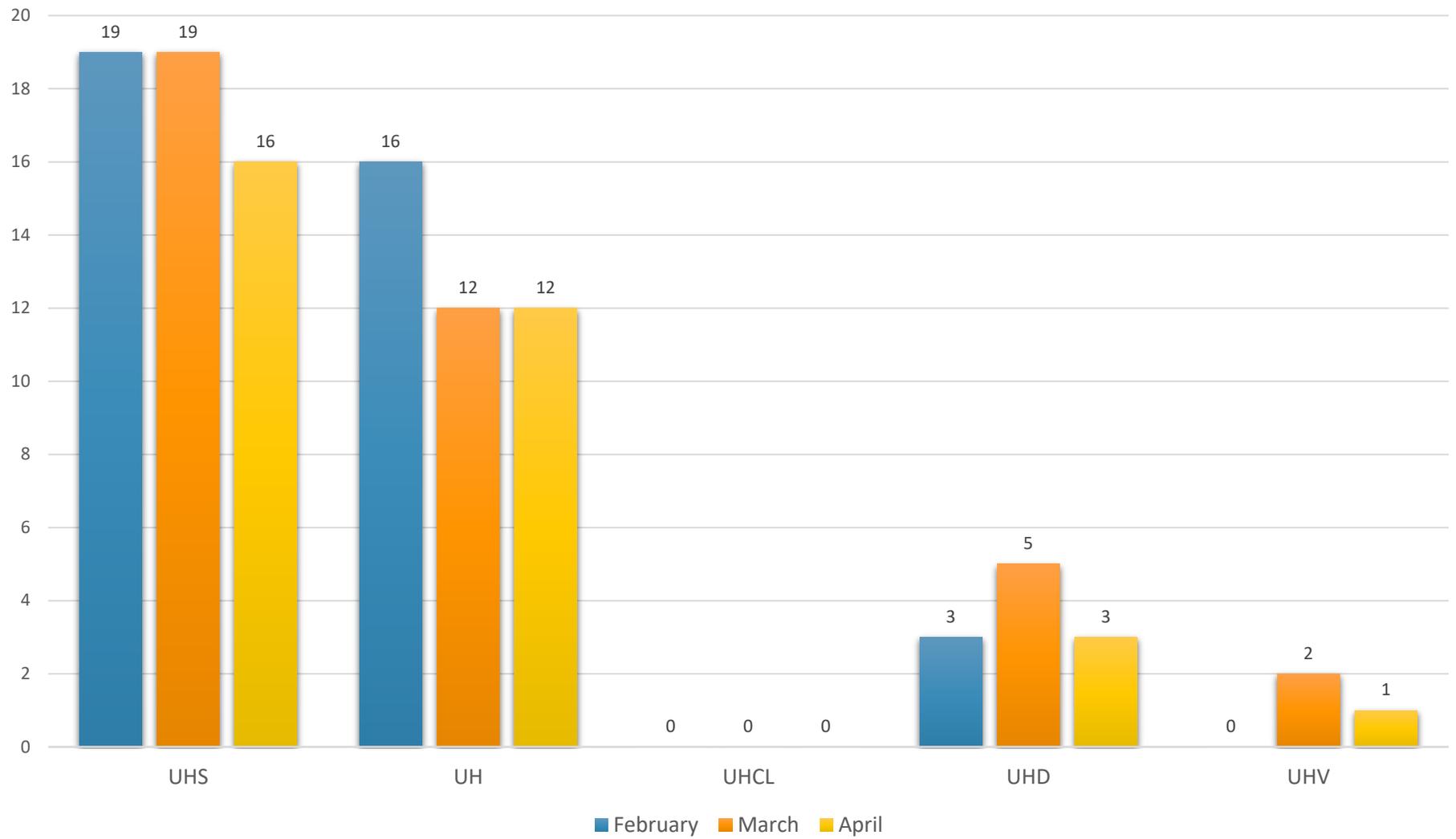


Reported Issues by Type Across UHS

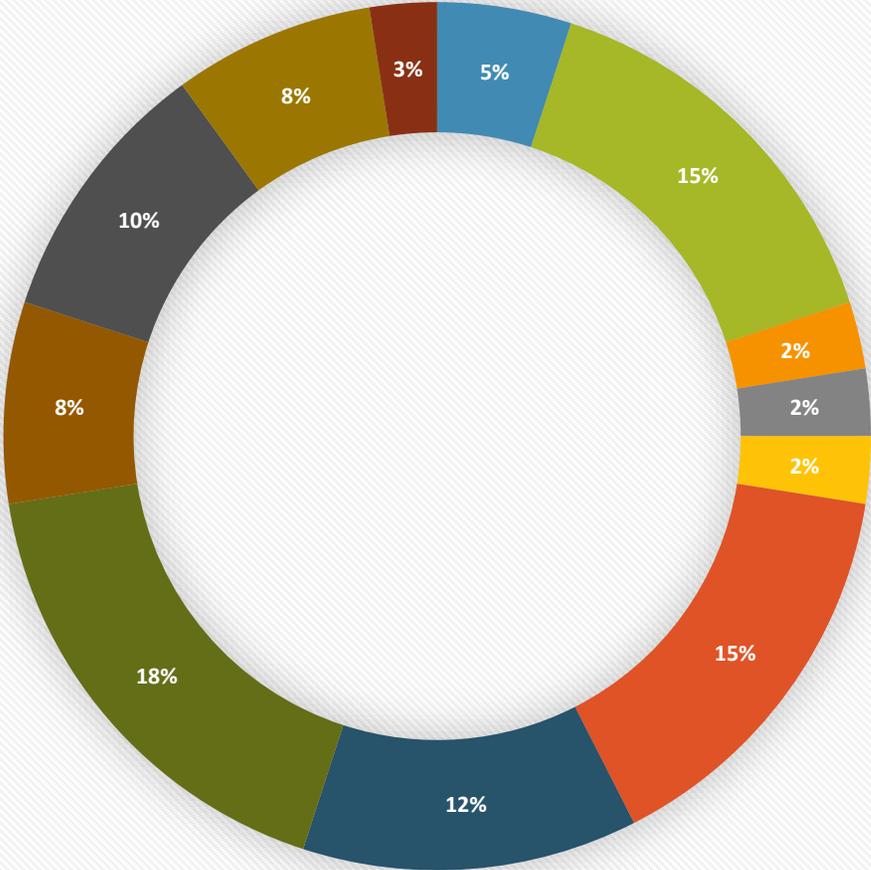


■ Academic Concerns ■ Abuse of Power ■ Discrimination ■ Employee Relations ■ Conflict of Interest ■ Harassment
■ Sexual Misconduct ■ Misuse of Resources ■ Compliance Violations ■ Campus Safety ■ Fraud ■ Ethics Violation

Issues Reported by Month

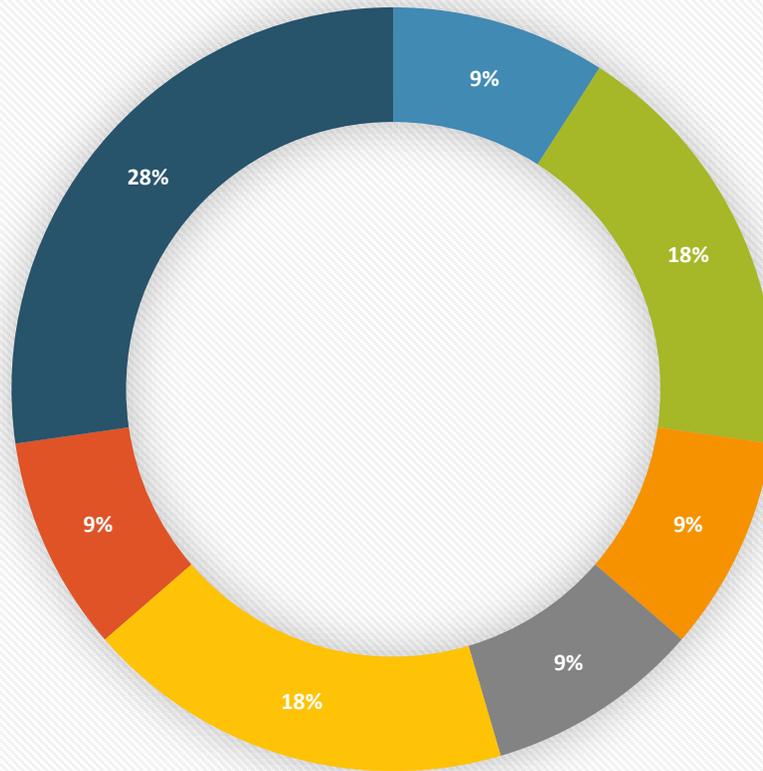


UH Case Breakdown



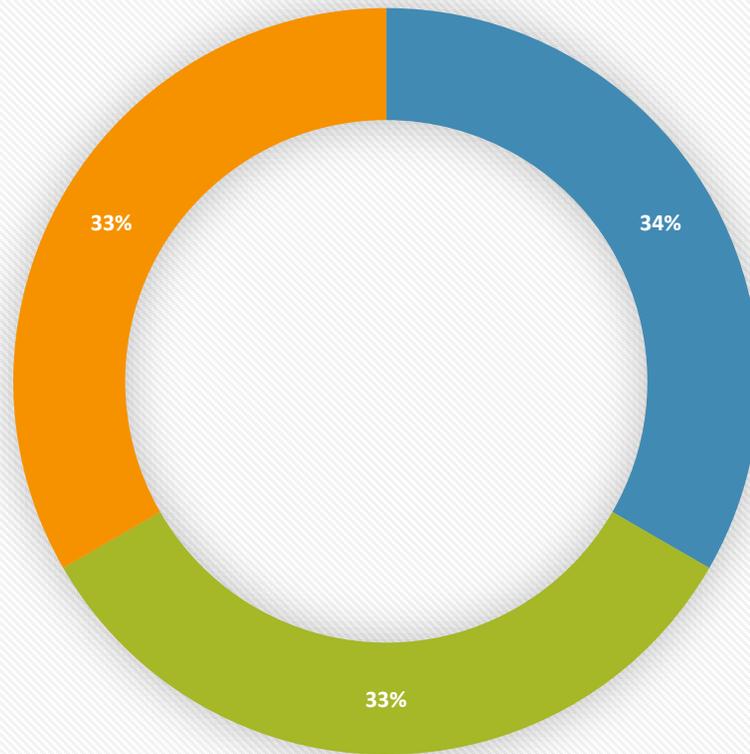
- Harassment
- Compliance Violation
- Employee Relations
- Campus Safety
- Conflict of Interest
- Academic Concerns
- Sexual Misconduct
- Abuse of Power
- Fraud
- Discrimination
- Ethics Violation
- Misuse of Resources

UHD Case Breakdown



■ Abuse of Power ■ Campus Safety ■ Discrimination ■ Sexual Misconduct ■ Employee Relations ■ Academic Concerns ■ Compliance Violation

UHV Case Breakdown



■ Abuse of Power ■ Academic Concerns ■ Ethics Violations

**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, 2022, and 2021

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.

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), Financial Statements and Independent Auditors' Report, August 31, 2022, and 2021

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



4/28/2023

CHIEF AUDIT EXECUTIVE

Phillip W. Hurd

DATE



CHANCELLOR

Renu Khator

DATE

5/11/23

**HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY
OF HOUSTON SYSTEM)

FINANCIAL STATEMENTS

AUGUST 31, 2022 AND 2021**

**HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
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AUGUST 31, 2022 AND 2021**

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INDEPENDENT AUDITORS' REPORT

To the Board of Regents,
University of Houston System:

Report on the Audit of the Financial Statements

Opinion

We have audited the 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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Stations’ basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Stations as of August 31, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Stations and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Stations’ ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Stations' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Station's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the 2021 financial statements have been restated to conform with the provisions of GASB 87, which has been applied retrospectively for all prior periods presented. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of the Stations are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the Stations-related accounts of the UH System that are attributable to the transactions of the Stations. They do not purport to, and do not, present fairly the financial position of the UH System as of August 31, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a 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 audit 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion 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 audit 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.

James Moore & Co., P.L.

Gainesville, Florida
March 16, 2023

**HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
MANAGEMENT’S DISCUSSION AND ANALYSIS
AUGUST 31, 2022 AND 2021**

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, 2022 and 2021. 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 for 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, 2022 and 2021. 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 and liabilities using the accrual basis of accounting, and represents the financial position as of the conclusion of the fiscal year. Net position is equal to assets minus liabilities. 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 including leased assets, net of accumulated depreciation and amortization, reduced by the outstanding debt obligations and lease liabilities 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
AUGUST 31, 2022 AND 2021
(Continued)

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Assets:			
Current assets	\$ 8,239,346	\$ 4,831,142	\$ 137,167
Capital assets, net	5,641,592	6,722,578	3,318,674
Other non-current assets	2,110,619	2,339,316	1,783,015
Total assets	<u>15,991,557</u>	<u>13,893,036</u>	<u>5,238,856</u>
Liabilities:			
Current liabilities	1,180,826	1,136,619	887,701
Long term liabilities	3,836,123	3,990,337	-
Total liabilities	<u>5,016,949</u>	<u>5,126,956</u>	<u>887,701</u>
Net position:			
Net investment in capital assets	1,651,255	2,586,711	3,318,674
Restricted	1,640,874	1,503,158	1,782,266
Unrestricted (deficit)	7,682,479	4,676,211	(749,785)
Total net position	<u>\$ 10,974,608</u>	<u>\$ 8,766,080</u>	<u>\$ 4,351,155</u>
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 21,877,024	\$ 21,863,044	\$ 24,521,590
Operating expenses	<u>19,340,683</u>	<u>18,804,035</u>	<u>25,534,305</u>
Operating income (loss)	<u>2,536,341</u>	<u>3,059,009</u>	<u>(1,012,715)</u>
Nonoperating income (loss):			
American Rescue Plan funds	-	883,632	-
Endowment contributions (distributions)	(63,463)	(33,264)	(58,491)
Gain (loss) from endowment	(165,234)	589,129	138,635
Interest expense on lease obligations	(64,523)	(66,580)	-
Other nonoperating income (expense)	(34,593)	(17,001)	11,138
	<u>(327,813)</u>	<u>1,355,916</u>	<u>91,282</u>
Change in net position	2,208,528	4,414,925	(921,433)
Net position, beginning of year (as restated)	8,766,080	4,351,155	5,272,588
Net position, end of year	<u>\$ 10,974,608</u>	<u>\$ 8,766,080</u>	<u>\$ 4,351,155</u>

HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2022 AND 2021
(Continued)

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, 2022, 2021 and 2020:

Revenues by Source	FY22		FY21		FY20		2022 – 2021 Increase (Decrease)		2021 – 2020 Increase (Decrease)	
	(A) Amount	% of Total	(B) Amount	% of Total	(C) Amount	% of Total	(A-B) Amount	% of Total	(B-C) Amount	% of Total
Operating revenues:										
Contributions	\$ 12,875,056	59%	\$ 12,754,784	58%	\$ 13,728,142	56%	\$ 120,272	860%	\$ (973,358)	37%
General support from the UH System	2,114,868	10%	2,558,750	12%	3,534,612	14%	(443,882)	-3,175%	(975,862)	37%
Program underwriting	3,037,105	14%	2,595,593	12%	3,458,115	14%	441,512	3,158%	(862,522)	32%
Production service	1,011,817	4%	883,981	4%	1,080,708	5%	127,836	914%	(196,727)	7%
Corporation for Public Broadcasting (CPB) grants	2,307,717	11%	2,331,099	11%	2,218,525	9%	(23,382)	-167%	112,574	-4%
Royalties	-	0%	100,797	0%	-	0%	(100,797)	-721%	100,797	-4%
Special events	2,460	0%	93	0%	6,834	0%	2,367	17%	(6,741)	0%
Other	528,001	2%	637,947	3%	494,654	2%	(109,946)	-786%	143,293	-5%
Total operating revenues	<u>\$ 21,877,024</u>	<u>100%</u>	<u>\$ 21,863,044</u>	<u>100%</u>	<u>\$ 24,521,590</u>	<u>100%</u>	<u>\$ 13,980</u>	<u>100%</u>	<u>\$(2,658,546)</u>	<u>100%</u>

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, 2022, 2021 and 2020.

Expenses by Function	FY22		FY21		FY20		2022 – 2021 Increase (Decrease)		2021 – 2020 Increase (Decrease)	
	(A) Amount	% of Total	(B) Amount	% of Total	(C) Amount	% of Total	(A-B) Amount	% of Total	(B-C) Amount	% of Total
Operating expenses:										
Programming and production (PRD) Broadcasting, engineering and technical (BET)	\$ 9,144,247	47%	\$ 7,536,923	40%	\$ 8,928,511	35%	\$1,607,324	300%	\$ (1,391,588)	21%
Occupancy and physical plant operations (BET)	1,859,134	10%	1,965,469	10%	4,243,601	17%	(106,335)	-20%	(2,278,132)	34%
Program information (PGM)	325,429	2%	325,429	2%	325,429	1%	-	0%	-	0%
Fundraising and membership development (FND)	382	0%	1,435	0%	280	0%	(1,053)	0%	1,155	0%
Underwriting and grant solicitation (UND)	1,291,693	7%	1,688,065	9%	1,738,467	7%	(396,372)	-74%	(50,402)	1%
Management and general (MGT)	1,074,090	5%	707,776	4%	1,018,271	4%	366,314	68%	(310,495)	4%
Institutional support (MGT)	2,778,371	14%	3,220,196	17%	5,165,325	20%	(441,825)	-82%	(1,945,129)	29%
Depreciation/amortization	1,789,439	9%	2,233,321	12%	3,209,183	13%	(443,882)	-83%	(975,862)	14%
Total operating expenses	<u>1,077,898</u>	<u>6%</u>	<u>1,125,421</u>	<u>6%</u>	<u>905,238</u>	<u>3%</u>	<u>(47,523)</u>	<u>-9%</u>	<u>220,183</u>	<u>-3%</u>
	<u>\$ 19,340,683</u>	<u>100%</u>	<u>\$ 18,804,035</u>	<u>100%</u>	<u>\$ 25,534,305</u>	<u>100%</u>	<u>\$ 536,648</u>	<u>100%</u>	<u>\$(6,730,270)</u>	<u>100%</u>

HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2022 AND 2021
(Continued)

FINANCIAL HIGHLIGHTS AND ANALYSIS

Assets and Liabilities - Fiscal Year 2022 Compared to Fiscal Year 2021

- Current assets increased due to primarily another year that resulted in a large operating surplus. Year over year fundraising increased in program underwriting, production services and contributions. Staffing levels and other pandemic-related expense measures remained in place for most of the year.
- Current liabilities increased slightly due to advance payment of an annual underwriting schedule.

Assets, and Liabilities - Fiscal Year 2021 Compared to Fiscal Year 2020

- Current assets increased primarily due to a large operating surplus that substantially increased cash and cash equivalents due to significant expense measures put in place for FY20 in anticipation of the pandemic's impact on fundraising.
- There were increases in the market values for the investments restricted for endowments.
- HPM's current liabilities increases are driven by accounts payable and unearned revenue results. Unearned revenue refers to underwriting revenue collected before the broadcast schedule airs that it is funding.

Operating Revenues – Fiscal Year 2022 Compared to Fiscal Year 2021

Houston Public Media's revenue increased year over year in underwriting, production services and gifts over \$1200. Revenue from UH General Support, and CPB grants decreased. In FY21 Houston Public Media benefitted from a one-time American Rescue Plan grant from CPB. After accounting for the one-time grant, FY22 total operating revenue was slightly ahead of FY21 revenue.

Operating Revenues – Fiscal Year 2021 Compared to Fiscal Year 2020

Houston Public Media's operating revenue was impacted by the pandemic in the recurring revenue channels of contributions, underwriting, and production service. Contributions were also impacted because multi-year commitments to the Tower and Transmitter consolidation project were fully funded in 2020 and are not recurring in 2021. HPM's overall revenue benefitted from a one-time American Rescue Plan grant from CPB of \$883,632 that is listed in nonoperating income.

Operating Expenses – Fiscal Year 2022 Compared to Fiscal Year 2021

Houston Public Media expenses in FY22 were relatively flat as expense measures stayed in place during this transition period following the pandemic.

Operating Expenses – Fiscal Year 2021 Compared to Fiscal Year 2020

Operating expenses decreased across all departments due to staff reductions at the end of FY20 in anticipation of COVID-19 driven revenue-declines. Broadcasting, engineering, and technical expenses were significantly reduced due to the Tower and Transmitter consolidation project major expense completion in FY20. Additionally, in Management and General, travel expenses were greatly reduced due to COVID-19.

HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2022 AND 2021
(Continued)

Capital Asset and Debt Administration

As of the end of fiscal 2022 and 2021, the Stations had \$5,641,592 and \$6,722,578 of capital assets, net of accumulated depreciation and amortization, respectively. These assets included buildings and building improvements, furniture and equipment, vehicles, land, indefinite-lived intangible assets, and right of use lease 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. Right of use assets are amortized over the shorter of the lease term or the useful life of the underlying asset. 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.

Requests for Information

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

HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
STATEMENTS OF NET POSITION
AUGUST 31, 2022 AND 2021

	2022		2021	
	Primary Institution	Component Unit (HPMF)	Primary Institution	Component Unit (HPMF)
<u>ASSETS</u>				
Current assets				
Cash and cash equivalents	\$ 6,551,303	\$ 952,699	\$ 3,896,239	\$ 1,001,564
Accounts receivable	-	697,996	-	688,600
Restricted cash and cash equivalents	1,029,635	387,092	883,632	315,027
Film rights, net	8,408	-	51,271	-
Prepaid expenses	650,000	-	-	-
Total current assets	<u>8,239,346</u>	<u>2,037,787</u>	<u>4,831,142</u>	<u>2,005,191</u>
Noncurrent assets				
Capital assets, net	5,641,592	14,100	6,722,578	14,100
Investments	2,110,619	1,670,148	2,339,316	2,053,673
Total noncurrent assets	<u>7,752,211</u>	<u>1,684,248</u>	<u>9,061,894</u>	<u>2,067,773</u>
Total Assets	<u>15,991,557</u>	<u>3,722,035</u>	<u>13,893,036</u>	<u>4,072,964</u>
<u>LIABILITES</u>				
Current liabilities				
Accounts payable	106,351	127,932	133,214	232,334
Accrued payroll	536,213	-	473,637	-
Employees' compensable leave	378,833	-	378,833	-
Unearned revenue	-	197,478	-	249,145
Lease liability - current portion	154,214	-	145,530	-
Interest payable	5,215	-	5,405	-
Total current liabilities	<u>1,180,826</u>	<u>325,410</u>	<u>1,136,619</u>	<u>481,479</u>
Noncurrent liabilities				
Lease liability, less current portion	3,836,123	-	3,990,337	-
Total Liabilities	<u>5,016,949</u>	<u>325,410</u>	<u>5,126,956</u>	<u>481,479</u>
<u>NET POSITION</u>				
Net position				
Net investment in capital assets	1,651,255	14,100	2,586,711	14,100
Restricted:				
Nonexpendable	595,000	1,462,489	595,000	1,462,489
Expendable	1,045,874	278,690	908,158	324,862
Unrestricted	7,682,479	1,641,346	4,676,211	1,790,034
Total Net Position	<u>\$ 10,974,608</u>	<u>\$ 3,396,625</u>	<u>\$ 8,766,080</u>	<u>\$ 3,591,485</u>

The accompanying notes to financial statements
are an integral part of these statements.

HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021

	2022		2021	
	Primary Institution	Component Unit (HPMF)	Primary Institution	Component Unit (HPMF)
Operating revenues				
Contributions	\$ 12,875,056	\$ 11,315,757	\$ 12,754,784	\$ 12,284,358
General support from the UH System	2,114,868	-	2,558,750	-
Program underwriting	3,037,105	4,050,844	2,595,593	3,010,617
Production service	1,011,817	4,345	883,981	14,132
Corporation for Public Broadcasting (CPB) grants	2,307,717	-	2,331,099	-
Royalties	-	-	100,797	-
Special events	2,460	-	93	-
Other	528,001	72,065	637,947	68,087
Total operating revenues	<u>21,877,024</u>	<u>15,443,011</u>	<u>21,863,044</u>	<u>15,377,194</u>
Operating expenses				
Grants to primary institution	-	12,829,350	-	12,426,907
Programming and production (PRD)	9,144,247	87,227	7,536,923	95,774
Broadcasting, engineering and technical (BET)	1,859,134	12,020	1,965,469	5,041
Occupancy and physical plant operations (BET)	325,429	-	325,429	-
Program information (PGM)	382	-	1,435	-
Fundraising and membership development (FND)	1,291,693	935,630	1,688,065	1,465,852
Underwriting and grant solicitation (UND)	1,074,090	1,074,090	707,776	707,776
Management and general (MGT)	2,778,371	295,173	3,220,196	184,599
Institutional support (MGT)	1,789,439	-	2,233,321	-
Depreciation and amortization	1,077,898	-	1,125,421	-
Total operating expenses	<u>19,340,683</u>	<u>15,233,490</u>	<u>18,804,035</u>	<u>14,885,949</u>
Operating income	<u>2,536,341</u>	<u>209,521</u>	<u>3,059,009</u>	<u>491,245</u>
Nonoperating income (loss)				
American Rescue Plan funds	-	-	883,632	-
Endowment distributions	(63,463)	-	(33,264)	-
Gain (loss) from endowment	(165,234)	(383,525)	589,129	381,426
Interest expense on lease obligations	(64,523)	-	(66,580)	-
Other nonoperating income (expense)	(34,593)	(20,856)	(17,001)	-
Total nonoperating income (loss)	<u>(327,813)</u>	<u>(404,381)</u>	<u>1,355,916</u>	<u>381,426</u>
Change in net position	<u>2,208,528</u>	<u>(194,860)</u>	<u>4,414,925</u>	<u>872,671</u>
Net position , beginning of year, as restated per Note 2	8,766,080	3,591,485	4,351,155	2,718,814
Net position , end of year	<u>\$ 10,974,608</u>	<u>\$ 3,396,625</u>	<u>\$ 8,766,080</u>	<u>\$ 3,591,485</u>

The accompanying notes to financial statements
are an integral part of these statements.

HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021

	2022	2021
	Primary	Primary
	Institution	Institution
Cash flows from operating activities		
Proceeds from contributions	\$ 12,875,056	\$ 12,754,784
Proceeds from CPB grants	2,307,717	2,331,099
Proceeds from program underwriting	3,037,105	2,595,593
Proceeds from other revenues	1,542,278	1,622,818
Payments to suppliers for goods and services	(8,053,379)	(7,052,270)
Payments to employees	(6,156,828)	(5,965,842)
Payments for broadcasting fees	(1,859,134)	(1,916,970)
Net cash provided by operating activities	3,692,815	4,369,212
Cash flows from noncapital financing activities		
Proceeds from American Rescue Plan funds	-	883,632
Cash flows from capital and related financing activities		
Purchase of capital assets	(32,037)	(274,796)
Prepayment for capital project	(650,000)	-
Purchase of film rights	-	(38,300)
Interest paid on lease obligations	(64,713)	(61,175)
Payments for right to use lease asset	(145,530)	(135,663)
Net cash used in capital and related financing activities	(892,280)	(509,934)
Cash flows from investing activities		
Other	532	(436)
Change in cash and cash equivalents	2,801,067	4,742,474
Cash and cash equivalents, beginning of year	4,779,871	37,397
Cash and cash equivalents, end of year	\$ 7,580,938	\$ 4,779,871
Cash and cash equivalents are presented on the Statements of Net Position as:		
Cash and cash equivalents	\$ 6,551,303	\$ 3,896,239
Restricted cash and cash equivalents	1,029,635	883,632
	\$ 7,580,938	\$ 4,779,871
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,536,341	\$ 3,059,009
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization expense	1,077,898	1,125,421
Amortization of film rights	42,863	86,799
Changes in assets and liabilities:		
Accounts payable	(26,863)	118,184
Accrued payroll	62,576	(20,201)
Total adjustments	1,156,474	1,310,203
Net cash provided by operating activities	\$ 3,692,815	\$ 4,369,212

The accompanying notes to financial statements
are an integral part of these statements.

**HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2022 AND 2021**

(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.

HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2022 AND 2021

(1) **Entity:** (Continued)

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:**

The following is a summary of the more significant accounting policies of the Stations, which affect significant elements of the accompanying financial statements:

(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*.

HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2022 AND 2021

(2) **Summary of Significant Accounting Policies:** (Continued)

(c) **Net position**—In the statements of net position, net position includes the following:

(i) *Net investment in capital assets*—Represents the Stations' or HPMF's original acquisition value of capital assets, including leased assets, net of accumulated depreciation and amortization, reduced by the outstanding debt obligations and lease liabilities 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.

(ii) *Restricted*—The component of net position that reports the constraints placed on the use of net position by either external parties and/or enabling legislation, reduced by any liabilities to be paid from these 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 endowments, which are available for purposes restricted by the donors, and can include grants and gifts restricted by the donor for a specific purpose.

(iii) *Unrestricted*—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.

(d) **Revenue recognition**—Appropriations from the University are recorded as revenues within production services, program underwriting, and other in the statement of revenues, expenses, and changes in net position when an expenditure is recorded.

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.

Underwriting revenues are contributions and are recognized as support in the period received.

(e) **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. There was no allowance for doubtful accounts recorded at August 31, 2022 and 2021.

(f) **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.

HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2022 AND 2021

(2) **Summary of Significant Accounting Policies:** (Continued)

Cash and equivalents and restricted cash 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 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.

(g) **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	15-22 years
Furniture and equipment	3-15 years
Intangible and other assets	10 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.

Right of use lease assets are included in capital assets and amortized over the shorter of the lease term or the useful life of the underlying asset.

(h) **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.

(i) **In-kind contributions**—Contributed materials, supplies, facilities, and property are recorded at their estimated fair value at the date of donation. The Stations report gifts of equipment, materials, professional services and other nonmonetary contributions as support in the accompanying statement of revenues, expenses, and changes in net position.

HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2022 AND 2021

(2) **Summary of Significant Accounting Policies:** (Continued)

If the fair value of contributed materials, supplies, facilities, and property cannot be reasonably determined, they are not recorded. Donated personal services of nonprofessional volunteers, as well as national and local programming services, are not recorded as revenue and expense as there is no objective basis available to measure the value of such services.

Contributed advertising and promotion are recorded at the fair value of the contribution portion of the total value received.

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 7.

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.

(j) **Corporation for Public Broadcasting Community Service Grants**—The Corporation for Public Broadcasting ("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 ("CSGs") to qualifying public broadcasting entities. CSGs are used to augment the financial resources of public broadcasting entities and 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, 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, record keeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

Any remaining CSG funds and other restricted CPB grant funds at fiscal year-end are reported as restricted cash and restricted-expendable net position on the statements of net position.

(k) **General support from the UH System**—General support from the UH System consists of allocated institutional support and physical plant costs (indirect administrative support) incurred by the UH System for which the Stations receive benefits.

Indirect administrative support is calculated using the CPB's Standard Method. For purposes of this calculation, expenses for non-broadcasting activities and unrelated business income taxes are removed from the Stations' total operating expenses, along with depreciation, amortization, in-kind contributions, and donated property and equipment to determine the Station's net direct expenses.

HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2022 AND 2021

(2) **Summary of Significant Accounting Policies:** (Continued)

For the years ended August 31, 2022 and 2021, there were no non-broadcasting activities or unrelated business income taxes.

(l) **Operating activities**—The Stations’ policy for defining operating activities as reported on the statements of revenues, expenses, and changes in net position are those that generally result from the provision of public broadcasting services to the Stations’ audience or to further HPMF’s exempt purpose. Revenues associated with, or restricted by donors to use for, capital improvements, and revenues and expenses that result from financing and investing activities are recorded as non-operating revenues. American Rescue Plan Act (“ARPA”) stabilization funds are also included within non-operating activities as these funds did not result from normal operations of the Stations or HPMF.

(m) **Functional allocation of expenses**—The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of revenues, expenses, and changes in net position. Accordingly, certain costs have been allocated among program and supporting services benefited based on total personnel costs or other systematic bases.

(n) **Employees’ compensable leave**—The liability for employees’ compensable leave represents employees’ accrued annual leave based on length of service subject to certain limitations as defined by state statute and UH System policies.

(o) **Unearned revenues**—Grant and program underwriting revenues received relating to the period after fiscal year-end are reported as unearned revenues.

(p) **Advertising**—Advertising costs are charged to operations when incurred. The Stations’ advertising expense for the year ended August 31, 2022 and 2021 was \$91,283 and \$13,030, respectively.

(q) **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.

(r) **Pension and other postemployment benefits**—As the Stations are a department of the UH System, any pension and other postemployment benefits liabilities are reported by the UH System. The UH System Annual Financial Statements may be obtained from: <https://uh.edu/office-of-finance/finance-reporting/>.

(s) **Recent accounting pronouncements**—In June 2017, the GASB issued Statement No. 87, *Leases*, to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This 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. The Station evaluated the effect of the implementation of the new standard and retrospectively implemented by recording in the August 31, 2021 financials a lease liability of \$4,135,867, accrued interest of \$5,405, interest expense of \$66,580, amortization expense of \$228,832, a lease asset of \$4,271,530, and a decrease to rental expense of \$196,838, resulting in a decrease to net position at August 31, 2021 of \$98,574.

HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2022 AND 2021

(2) **Summary of Significant Accounting Policies:** (Continued)

GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, in May 2020. GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The provisions in GASB 96 are effective for periods beginning after June 15, 2022. The Stations are currently evaluating the impact the Statement will have on their financial statements.

(t) **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, 2022 and 2021.

HMPF, 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 HMPF for the years ended August 31, 2022 and 2021.

Accordingly, no provision for income taxes has been made in the accompanying financial statements.

(u) **Reclassifications**—Certain amounts in the prior year financials have been reclassified to conform to the current year presentation. These reclassifications had no effect on total net position.

(3) **Endowment Funds:**

(i) **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 2022 and 2021. 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 HMPF 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.

HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2022 AND 2021

(3) **Endowment Funds:** (Continued)

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, 2022 and 2021, HPMF had cash deposits held by Amegy Bank in the amount of \$702,699 and \$730,708, respectively, that were uninsured and uncollateralized. HPM did not have any balances that were uninsured or uncollateralized as of August 31, 2022 and 2021, 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 2022 and 2021, 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.

The following summarizes the Stations' activity for the years ended August 31, 2022 and 2021:

Balance, September 1, 2020	\$ 1,783,015
FY21 net contributions (distributions)	(33,264)
FY21 realized/unrealized gain	589,565
Balance, August 31, 2021	2,339,316
FY22 net contributions (distributions)	(63,463)
FY22 realized/unrealized loss	(165,234)
Balance, August 31, 2022	\$ 2,110,619

Unrealized gains and losses for each year are recorded in the accompanying statements of revenues, expenses, and changes in net position.

HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2022 AND 2021

(3) **Endowment Funds:** (Continued)

(ii) **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 and held by the University of Houston Foundation (the “U of H Foundation”) The Investment Pool combines the assets of all endowment fund accounts and is allocated to external investment managers. The U of H Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. 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.

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 \$1,670,148 and \$2,053,673 as of August 31, 2022 and 2021, 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 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, 2022 and 2021:

Balance, September 1, 2020	\$ 1,672,247
FY21 realized/unrealized gain	381,426
Balance, August 31, 2021	<u>2,053,673</u>
FY22 realized/unrealized loss	(383,525)
Balance, August 31, 2022	<u>\$ 1,670,148</u>

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(4) **Capital Assets:**

Capital asset balances and activity for the year ended August 31, 2022, were as follows for the Stations:

	Balance September 1, 2021	Increases	Decreases	Transfers	Balance August 31, 2022
Capital assets:					
Buildings and building improvements	\$ 12,706,461	\$ -	\$ -	\$ -	\$ 12,706,461
Furniture and equipment	4,841,671	32,037	(159,178)	-	4,714,530
Intangible and other assets	75,000	-	-	-	75,000
ROU lease assets	4,271,530	-	-	-	4,271,530
Total capital assets	21,894,662	32,037	(159,178)	-	21,767,521
Less: Accumulated depreciation and amortization	15,172,084	1,077,898	124,053	-	16,125,929
Net capital assets	<u>\$ 6,722,578</u>	<u>\$ (1,045,861)</u>	<u>\$ (35,125)</u>	<u>\$ -</u>	<u>\$ 5,641,592</u>

Capital asset balances and activity for the year ended August 31, 2022, were as follows for HPMF:

	Balance September 1, 2021	Increases	Decreases	Transfers	Balance August 31, 2022
Capital assets, not being depreciated:					
Land	\$ 14,100	\$ -	\$ -	\$ -	\$ 14,100
Capital assets, being depreciated:					
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
Less: Accumulated depreciation	1,190,598	-	-	-	1,190,598
Total capital assets being depreciated, net	-	-	-	-	-
Net capital assets	<u>\$ 14,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,100</u>

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(4) **Capital Assets:** (Continued)

Capital asset balances and activity for the year ended August 31, 2021, were as follows for the Stations:

	Balance September 1, 2020	Increases	Decreases	Transfers	Balance August 31, 2021
Capital assets:					
Buildings and building improvements	\$ 12,706,461	\$ -	\$ -	\$ -	\$ 12,706,461
Furniture and equipment	7,589,261	274,797	(2,738,429)	(283,958)	4,841,671
Intangible and other assets	75,000	-	-	-	75,000
ROU lease assets	4,271,530	-	-	-	4,271,530
Total capital assets	<u>24,642,252</u>	<u>274,797</u>	<u>(2,738,429)</u>	<u>(283,958)</u>	<u>21,894,662</u>
Less: Accumulated depreciation and amortization	<u>17,052,048</u>	<u>1,125,421</u>	<u>2,721,427</u>	<u>283,958</u>	<u>15,172,084</u>
Net capital assets	<u>\$ 7,590,204</u>	<u>\$ (850,624)</u>	<u>\$ (17,002)</u>	<u>\$ -</u>	<u>\$ 6,722,578</u>

Capital asset balances and activity for the year ended August 31, 2021, were as follows for HPMF:

	Balance September 1, 2020	Increases	Decreases	Transfers	Balance August 31, 2021
Capital assets, not being depreciated:					
Land	\$ 14,100	\$ -	\$ -	\$ -	\$ 14,100
Capital assets, being depreciated:					
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
Less: Accumulated depreciation	<u>1,190,598</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,190,598</u>
Total capital assets being depreciated, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net capital assets	<u>\$ 14,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,100</u>

The Stations had depreciation and amortization expense of \$1,077,898 and \$1,125,421 for the fiscal years ended August 31, 2022 and 2021, respectively. All of HPMF's depreciable assets were fully depreciated. Therefore, there was no depreciation expense for HPMF for the fiscal years ended August 31, 2022 and 2021.

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(5) 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, 2022 and 2021:

- Pooled investments of \$2,110,619 and \$2,339,316, respectively, are valued at fair value per share of the pool's underlying portfolio.

HPMF had the following recurring fair value measurements as of August 31, 2022 and 2021:

- Pooled investments of \$1,670,148 and \$2,053,673, respectively, are valued at fair value per share of the pool's underlying portfolio

As a result of market declines, the fair value of certain donor-restricted endowments for HPMF were less than the historical cost values (original gift amount), and therefore, are considered to be underwater. The fair value deficiencies of underwater endowments were \$109,684 and \$20,549 at August 31, 2022 and 2021, respectively.

There were no unfunded commitments related to the endowment funds and the redemption period for the funds is daily.

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(6) Film Rights:

KURT 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, 2022 and 2021, were as follows:

Balance, September 1, 2020	\$	99,770
FY21 additions		38,300
FY21 amortization		(86,799)
Balance, August 31, 2021		51,271
FY22 additions		-
FY22 amortization		(42,863)
Balance, August 31, 2022		\$ 8,408

(7) 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 2022 and 2021. 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 \$1,789,439 and \$2,233,321 in fiscal years 2022 and 2021, respectively.

(8) Leases:

The Stations recognize intangible right of use assets and corresponding lease liabilities for all significant leases that are not considered short-term. The Stations lease tower and antenna usage through a lease agreement that extends through the Stations' fiscal year 2039. The right of use lease asset has been discounted at a rate of 1.59%. As of August 31, 2022 and 2021, the right of use asset was \$4,271,530, and accumulated amortization was \$457,664 and \$228,832, respectively.

Future maturities of lease payments are as follows:

Year Ending August 31,	Principal	Interest	Total Payment
2023	\$ 154,214	\$ 62,336	\$ 216,550
2024	163,063	59,984	223,047
2025	172,579	57,159	229,738
2026	182,286	54,345	236,630
2027	192,356	51,374	243,729
2028-2032	1,126,191	206,619	1,332,811
2033-2037	1,440,081	105,012	1,545,093
2038-2039	559,567	7,880	567,448
Total	\$ 3,990,337	\$ 604,709	\$ 4,595,046

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(9) 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, 2022 and 2021, amounted to \$2,483,730 and \$2,379,356 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.

(10) Significant Concentrations:

Information related to significant concentrations of revenues for the Stations and HPMF, except as otherwise disclosed, is as follows:

(a) **Accounts receivable**—At August 31, 2022, there were no entities that represented a significant concentration of accounts receivable for HPMF. At August 31, 2021, one entity represented approximately 10% of accounts receivable for HPMF. HPMF has no policy requiring collateral or other security to support receivables.

There were no significant concentrations of accounts receivable for the Stations.

(b) **Revenues**—The Stations received significant revenue from two sources in fiscal years 2022 and 2021. The CPB provided approximately 11% of revenues, the University provided approximately 10% in cash, support and donated facilities. For the year ended August 31, 2021, the CPB provided approximately 14% of revenues, the University provided approximately 11% in cash, support and donated facilities.

There were no significant concentrations of revenues for HPMF.

(11) Community Service Grants:

The Station receives CSGs from the CPB annually. The CSGs received and expended during the most recent fiscal years were as follows:

<u>Year of Grant</u>	<u>Grants Received</u>	<u>Expended</u>			<u>Uncommitted Balance at August 31, 2022</u>
		<u>2019 – 2020</u>	<u>2020 – 2021</u>	<u>2021 – 2022</u>	
2019-21	\$ 2,187,384	\$ 2,187,384	\$ -	\$ -	\$ -
2020-22	\$ 2,284,770	\$ -	\$ 2,284,770	\$ -	\$ -
2021-23	\$ 2,262,642	\$ -	\$ -	\$ 2,116,639	\$ 146,003

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(12) **Restrictions on Net Position:**

Included in restricted expendable net position at August 31, 2021, are restricted cash from ARPA funds of \$883,632 and endowment earnings of \$24,526 for the Stations; and endowment earnings of \$324,862 for HPMF. Included in restricted expendable net position at August 31, 2022, are restricted cash from ARPA funds of \$883,632, unspent CSG grants of \$146,003, and endowment earnings of \$16,239 for the Stations; and endowment earnings of \$278,690 for HPMF. The restricted nonexpendable net position at August 31, 2022 and 2021 contains the endowment balances of \$595,000 and \$1,462,489 for the Stations and HPMF, respectively.

SUPPLEMENTAL INFORMATION

HOUSTON PUBLIC MEDIA
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PRIMARY INSTITUTION SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2022

	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	\$ 2,989,390	\$ 567,543	\$ -	\$ 3,556,933	\$ 199,915	\$ 1,094,973	\$ -	\$ 1,294,888	\$ 4,851,821
Fringe benefits	879,557	150,501	-	1,030,058	61,945	275,580	-	337,525	1,367,583
Financial and legal services	6,751	357	-	7,108	-	211,468	-	211,468	218,576
Fundraising	5,727	4,352	-	10,079	199,242	98,375	-	297,617	307,696
Membership fees	80	2,341	-	2,421	12,167	72,988	-	85,155	87,576
Other expenses	273,609	255,205	-	528,814	519,843	520,744	1,074,090	2,114,677	2,643,491
Mail services	-	704	-	704	24,568	606	-	25,174	25,878
Printing and reproduction services	3,842	236	-	4,078	115,001	7,273	-	122,274	126,352
Professional services	609,667	56,791	-	666,458	29,336	349,603	-	378,939	1,045,397
Program rights	4,278,067	109,191	-	4,387,258	-	40,530	-	40,530	4,427,788
Rental and leases	30,237	14,988	-	45,225	-	38,524	-	38,524	83,749
Repairs and maintenance	3,415	165,406	-	168,821	-	32,608	-	32,608	201,429
Supplies and materials	56,287	174,583	382	231,252	129,504	22,759	-	152,263	383,515
Telephone	-	128,448	-	128,448	-	782	-	782	129,230
Travel	7,618	1,397	-	9,015	172	8,748	-	8,920	17,935
Utilities	-	227,091	-	227,091	-	2,810	-	2,810	229,901
Total expenses before in-kind	<u>9,144,247</u>	<u>1,859,134</u>	<u>382</u>	<u>11,003,763</u>	<u>1,291,693</u>	<u>2,778,371</u>	<u>1,074,090</u>	<u>5,144,154</u>	<u>16,147,917</u>
In-kind	-	325,429	-	325,429	-	1,789,439	-	1,789,439	2,114,868
Total expenses before depreciation and amortization	<u>9,144,247</u>	<u>2,184,563</u>	<u>382</u>	<u>11,329,192</u>	<u>1,291,693</u>	<u>4,567,810</u>	<u>1,074,090</u>	<u>6,933,593</u>	<u>18,262,785</u>
Depreciation and amortization	-	-	-	-	-	-	-	-	1,077,898
Total operating expenses	<u>\$ 9,144,247</u>	<u>\$ 2,184,563</u>	<u>\$ 382</u>	<u>\$ 11,329,192</u>	<u>\$ 1,291,693</u>	<u>\$ 4,567,810</u>	<u>\$ 1,074,090</u>	<u>\$ 6,933,593</u>	<u>\$ 19,340,683</u>
Percentage of total expenses before depreciation	50%	12%	0%	62%	7%	25%	6%	38%	100%

The accompanying notes to financial statements are an integral part of this schedule.

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COMPONENT UNIT (HPMF) SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2022

	Grants to Primary Institution	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,691	\$ -	\$ 68,691	\$ 68,691
Fundraising	-	4,855	4,352	9,207	199,242	93,192	-	292,434	301,641
Grants to KUHF-FM	6,414,675	-	-	6,414,675	-	-	-	-	6,414,675
Grants to KUHT-TV	6,414,675	-	-	6,414,675	-	-	-	-	6,414,675
Membership fees	-	80	80	160	12,167	100	-	12,267	12,427
Other expenses	-	80,010	5,353	85,363	440,501	93,137	1,074,090	1,607,728	1,693,091
Mail services	-	-	-	-	11,142	-	-	11,142	11,142
Printing and reproduction services	-	-	-	-	113,621	4,918	-	118,539	118,539
Professional services	-	1,000	1,000	2,000	29,336	10,000	-	39,336	41,336
Repairs and maintenance	-	149	149	298	-	-	-	-	298
Supplies and materials	-	769	764	1,533	129,449	24,713	-	154,162	155,695
Telephone	-	-	-	-	-	422	-	422	422
Travel	-	364	322	686	172	-	-	172	858
Total operating expenses	\$ 12,829,350	\$ 87,227	\$ 12,020	\$ 12,928,597	\$ 935,630	\$ 295,173	\$ 1,074,090	\$ 2,304,893	\$ 15,233,490

The accompanying notes to financial statements are an integral part of this schedule.

HOUSTON PUBLIC MEDIA
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PRIMARY INSTITUTION SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2021

	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	\$ 2,972,739	\$ 557,071	\$ -	\$ 3,529,810	\$ 217,147	\$ 857,294	\$ -	\$ 1,074,441	\$ 4,604,251
Fringe benefits	903,876	147,286	-	1,051,162	65,586	224,642	-	290,228	1,341,390
Financial and legal services	25,363	5,173	-	30,536	97	247,152	-	247,249	277,785
Fundraising	5,201	2,367	-	7,568	376,989	8,565	-	385,554	393,122
Membership fees	298	2,659	-	2,957	4,510	68,051	-	72,561	75,518
Other expenses	290,011	131,298	-	421,309	481,558	78,757	707,776	1,268,091	1,689,400
Mail services	40	1,310	-	1,350	156,394	27,306	-	183,700	185,050
Printing and reproduction services	-	-	193	193	161,672	875	-	162,547	162,740
Professional services	211,997	151,993	-	363,990	102,717	158,257	-	260,974	624,964
Program rights	3,088,557	786	-	3,089,343	-	1,394,512	-	1,394,512	4,483,855
Rental and leases	15,371	329,242	-	344,613	8,945	41,399	-	50,344	394,957
Repairs and maintenance	14,734	179,189	-	193,923	-	8,370	-	8,370	202,293
Supplies and materials	8,098	158,822	1,242	168,162	112,432	97,696	-	210,128	378,290
Telephone	-	138,577	-	138,577	-	-	-	-	138,577
Travel	638	189	-	827	18	6,665	-	6,683	7,510
Utilities	-	159,507	-	159,507	-	655	-	655	160,162
Total expenses before in-kind	<u>7,536,923</u>	<u>1,965,469</u>	<u>1,435</u>	<u>9,503,827</u>	<u>1,688,065</u>	<u>3,220,196</u>	<u>707,776</u>	<u>5,616,037</u>	<u>15,119,864</u>
In-kind	-	325,429	-	325,429	-	2,233,321	-	2,233,321	2,558,750
Total expenses before depreciation and amortization	<u>7,536,923</u>	<u>2,290,898</u>	<u>1,435</u>	<u>9,829,256</u>	<u>1,688,065</u>	<u>5,453,517</u>	<u>707,776</u>	<u>7,849,358</u>	<u>17,678,614</u>
Depreciation and amortization	-	-	-	-	-	-	-	-	1,125,421
Total operating expenses	<u>\$ 7,536,923</u>	<u>\$ 2,290,898</u>	<u>\$ 1,435</u>	<u>\$ 9,829,256</u>	<u>\$ 1,688,065</u>	<u>\$ 5,453,517</u>	<u>\$ 707,776</u>	<u>\$ 7,849,358</u>	<u>\$ 18,804,035</u>
Percentage of total expenses before depreciation	43%	13%	0%	56%	10%	31%	4%	44%	100%

The accompanying notes to financial statements are an integral part of this schedule.

HOUSTON PUBLIC MEDIA
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COMPONENT UNIT (HPMF) SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2021

	Grants to Primary Institution	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	\$ -	\$ -	\$ -	\$ -	\$ 97	\$ 111,059	\$ -	\$ 111,156	\$ 111,156
Fundraising	-	200	200	400	376,958	6,065	-	383,023	383,423
Grants to KUHF-FM	6,213,454	-	-	6,213,454	-	-	-	-	6,213,454
Grants to KUHT-TV	6,213,453	-	-	6,213,453	-	-	-	-	6,213,453
Membership fees	-	160	-	160	4,510	-	-	4,510	4,670
Other expenses	-	87,225	4,652	91,877	558,175	47,926	707,776	1,313,877	1,405,754
Mail services	-	-	-	-	150,082	-	-	150,082	150,082
Printing and reproduction services	-	-	-	-	161,672	-	-	161,672	161,672
Professional services	-	6,500	-	6,500	92,963	14,000	-	106,963	113,463
Rental and leases	-	1,500	-	1,500	8,945	21	-	8,966	10,466
Supplies and materials	-	-	-	-	112,432	5,528	-	117,960	117,960
Travel	-	189	189	378	18	-	-	18	396
Total operating expenses	<u>\$ 12,426,907</u>	<u>\$ 95,774</u>	<u>\$ 5,041</u>	<u>\$ 12,527,722</u>	<u>\$ 1,465,852</u>	<u>\$ 184,599</u>	<u>\$ 707,776</u>	<u>\$ 2,358,227</u>	<u>\$ 14,885,949</u>

The accompanying notes to financial statements are an integral part of this schedule.

HOUSTON PUBLIC MEDIA
(A DIVISION OF THE UNIVERSITY OF HOUSTON SYSTEM)
COMBINING SCHEDULE OF REVENUES AND EXPENSES BY STATION
FOR THE YEAR ENDED AUGUST 31, 2022

	<u>KUHT-FM</u>	<u>KUHT-TV</u>	<u>Totals</u>
Operating revenues			
Contributions	\$ 6,796,158	\$ 6,078,898	\$ 12,875,056
General support from the UH System	974,574	1,140,294	2,114,868
Program underwriting	1,596,069	1,441,036	3,037,105
Production service	325,303	686,514	1,011,817
Corporation for Public Broadcasting (CPB) grants	578,800	1,728,917	2,307,717
Special events	2,460	-	2,460
Other	314,348	213,653	528,001
Total operating revenues	<u>10,587,712</u>	<u>11,289,312</u>	<u>21,877,024</u>
Operating expenses			
Salaries and wages	2,425,913	2,425,908	4,851,821
Fringe benefits	683,792	683,791	1,367,583
Financial and legal services	104,551	114,025	218,576
Fundraising	80,694	227,002	307,696
Membership fees	27,230	60,346	87,576
Other expenses	1,631,682	1,011,809	2,643,491
Mail services	19,192	6,686	25,878
Printing and reproduction services	69,850	56,502	126,352
Professional services	456,030	589,367	1,045,397
Program rights	1,947,998	2,479,790	4,427,788
Rental and leases	871	82,878	83,749
Repair and maintenance	118,022	83,407	201,429
Supplies and materials	197,369	186,146	383,515
Telephone	65,101	64,129	129,230
Travel	9,741	8,194	17,935
Utilities	116,228	113,673	229,901
In-kind	974,575	1,140,293	2,114,868
Depreciation and amortization	114,416	963,482	1,077,898
Total operating expenses	<u>9,043,255</u>	<u>10,297,428</u>	<u>19,340,683</u>
Operating income	<u>1,544,457</u>	<u>991,884</u>	<u>2,536,341</u>
Nonoperating income (loss)			
Gain (loss) from endowment	(92,333)	(72,901)	(165,234)
Endowment distribution	-	(63,463)	(63,463)
Interest expense on lease obligations	(32,261)	(32,262)	(64,523)
Other nonoperating income (expense)	-	(34,593)	(34,593)
Total nonoperating income (loss)	<u>(124,594)</u>	<u>(203,219)</u>	<u>(327,813)</u>
Change in net position	<u>\$ 1,419,863</u>	<u>\$ 788,665</u>	<u>\$ 2,208,528</u>

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The accompanying notes to financial statements are an integral part of this schedule.

March 16, 2023

To the Board of Regents,
University of Houston System:

We have audited the financial statements of the business-type activities and 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 year ended August 31, 2022, and have issued our report thereon March 16, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated April 29, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Stations solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team and others in our firm have complied with all relevant ethical requirements regarding independence.

Significant Risks

Professional standards require that we, as auditors, identify during the planning stage of the audit significant risks that impact the audit based upon the nature of the organization and design our audit procedures to adequately address those risks. We identified the following preliminary significant risks of material misstatements as part of our audit planning:

- Management override of controls
- Improper revenue recognition and improper revenue classifications for Corporation for Public Broadcasting (CPB) purposes
- Improper functional classification of expenses and reasonableness of allocation methods
- Improper journal entry activity to cover up fraudulent disbursements, to record fraudulent revenue items, or to reclassify revenue items improperly for CPB reporting purposes
- Improper recording of transactions with related parties

We designed our audit procedures to address these risks. If during the course of the audit we had any findings related to these or other risks, we would have communicated those findings to you.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Stations is included in Note 2 to the financial statements. The Stations implemented GASB Statement No. 87, *Leases*, during the 2022 fiscal year. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Depreciation – Management's estimate of depreciation expense is based on the underlying assets' depreciation calculated using the straight-line method over the assets' useful lives. We evaluated the key factors and assumptions used to develop the estimate of depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Investments – The Stations hold investments for which quoted market prices are not available. The estimated fair value of these investments is based on the net asset value of the UH System’s Endowment Fund and the HPMF Endowment Fund Investment Pool. The Stations review and evaluate the values and assess the valuation methods and assumptions used in determining the fair value of the investments. Because the investment pools are not readily marketable, the estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a readily available market for such investments existed, and differences could be material. We evaluated the key factors and assumptions used to develop the valuation methods and assumptions used in determining the fair value of the investments and determined that they are reasonable in relation to the financial statements taken as whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Stations’ financial statements relate to:

- Note 10 – Significant Concentrations
- Note 12 – Restrictions on Net Position

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. We identified no significant unusual transactions as a result of our audit procedures.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management. In response to these misstatements, management has provided us with the following responses and corrective actions.

- To correct the revenues and expenses of Houston Public Media Foundation (“HPMF”) which were overstated as a result of the miscoding of a transfer between HPMF and the Stations \$ 300,000

Management's Response: Houston Public Media (HPM) agrees that this transaction was coded incorrectly due to an accounting error and has made the necessary adjustment.

Management's Corrective Action Plan: HPM has reviewed its operations internally and with University and external subject matter experts in business management, accounting, and financial reporting, and is currently making multiple changes to help ensure the accuracy of its accounting and financial activities. These changes will be made over the next few months and will be substantially completed by December 31, 2023.

- *HPM is modifying its business operations structure to create a team of specialists focused primarily on accounting for major revenue sources (gifts, underwriting, grants) as well as the HPM Foundation and a team of generalists focused primarily on recurring business operations (contracts, human resources, payroll, reconciliations, etc.). Both teams will report to the same financial officer, who will provide oversight to ensure that all responsibilities are fulfilled, including monitoring to ensure the accurate recording, reconciliation and review of transactions.*
- *In addition to increasing internal expertise and review processes, HPM is working with other University of Houston areas with expertise in accounting and financial reporting to conduct regular and ongoing reviews of large transactions recorded in the University or the Foundation's financial systems to ensure appropriate recording.*
- *HPM is reviewing all financial and accounting business processes to help ensure that processes are sufficient to meet the departments' needs and ensure accurate and timely recording of transactions.*
- **To correct HPMF account balances for accruals at fiscal year-end by:**

Increasing program underwriting revenue	\$ 268,144
Increasing accounts receivable	\$ 419,444
Decreasing unearned revenue	\$ 151,300

Management's Response: Houston Public Media (HPM) agrees that the adjustment to accounts receivable was not made timely and has made the necessary adjustment.

Management's Corrective Action Plan: HPM has reviewed its operations internally and with University and external subject matter experts in business management, accounting, and financial reporting, and is currently making multiple changes to help ensure the accuracy of its accounting and financial activities. These changes will be made over the next few months and will be substantially completed by December 31, 2023.

- *HPM is modifying its business operations structure to create a team of specialists focused primarily on accounting for major revenue sources (gifts, underwriting, grants) as well as the HPM Foundation and a team of generalists focused primarily on recurring business operations (contracts, human resources, payroll, reconciliations, etc.). Both teams will report to the same financial officer, who will provide oversight to ensure that all responsibilities are fulfilled, including monitoring to ensure the accurate recording, reconciliation and review of transactions.*

- *In addition to increasing internal expertise and review processes, HPM is working with other University of Houston areas with expertise in accounting and financial reporting to conduct regular and ongoing reviews of large transactions recorded in the University or the Foundation's financial systems to ensure appropriate recording.*
- *HPM is reviewing all financial and accounting business processes to help ensure that processes are sufficient to meet the departments' needs and ensure accurate and timely recording of transactions.*
- To correct the overstatement of expenses and record a prepaid expense for the funds held by the University of Houston Construction Office at year end for the Houston Public Media Generator Project \$ 650,000

Management's Response: Houston Public Media (HPM) agrees that the correct methodology of accounting for an internal transfer in stand-alone financial statements was not selected and has made the necessary adjustment.

Management's Corrective Action Plan: HPM has reviewed its operations internally and with University and external subject matter experts in business management, accounting, and financial reporting, and is currently making multiple changes to help ensure the accuracy of its accounting and financial activities. These changes will be made over the next few months and will be substantially completed by December 31, 2023.

- *HPM is modifying its business operations structure to create a team of specialists focused primarily on accounting for major revenue sources (gifts, underwriting, grants) as well as the HPM Foundation and a team of generalists focused primarily on recurring business operations (contracts, human resources, payroll, reconciliations, etc.). Both teams will report to the same financial officer, who will provide oversight to ensure that all responsibilities are fulfilled, including monitoring to ensure the accurate recording, reconciliation and review of transactions.*
- *In addition to increasing internal expertise and review processes, HPM is working with other University of Houston areas with expertise in accounting and financial reporting to conduct regular and ongoing reviews of large transactions recorded in the University or the Foundation's financial systems to ensure appropriate recording.*
- *HPM is reviewing all financial and accounting business processes to help ensure that processes are sufficient to meet the departments' needs and ensure accurate and timely recording of transactions.*

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Stations' financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditors' Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditors' report. No such circumstances arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated March 16, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with the Stations, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Stations' auditors.

Communication of Significant Deficiencies

In planning and performing our audit of the financial statements of the Stations as of and for the year ended August 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the Stations' 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Stations' internal control over financial reporting.

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. We identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 over financial reporting, 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

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. We consider the following deficiencies in the Stations' internal control to be significant deficiencies:

HPMF Revenue Report – During the course of our audit, we identified a discrepancy between the monthly revenue reports that HPMF provides to its third-party bookkeeper and the activity reported in HPMF's general ledger. The difference was related to a transfer of funds designated for the Stations that was miscoded, overstating revenues and expenses. The resulting audit adjustment was corrected by management as summarized in the Corrected Misstatements section of this letter. We recommend that management evaluate their procedures related to the review and reconciliation of the monthly revenue reports to the activity posted. The process for review should be designed to detect and correct errors and should occur regularly, but no less than on a monthly basis, and evidence of these reviews should be documented.

Management's Response: As stated in the Corrected Misstatements section, Houston Public Media (HPM) agrees that this transaction was coded incorrectly due to an accounting error.

Management's Corrective Action Plan: HPM has reviewed its operations internally and with University and external subject matter experts in business management, accounting, and financial reporting, and is currently making multiple changes to help ensure the accuracy of its accounting and financial activities. These changes will be made over the next few months and will be substantially completed by December 31, 2023.

- *HPM is modifying its business operations structure to create a team of specialists focused primarily on accounting for major revenue sources (gifts, underwriting, grants) as well as the HPM Foundation and a team of generalists focused primarily on recurring business operations (contracts, human resources, payroll, reconciliations, etc.). Both teams will report to the same financial officer, who will provide oversight to ensure that all responsibilities are fulfilled, including monitoring to ensure the accurate recording, reconciliation and review of transactions.*
- *In addition to increasing internal expertise and review processes, HPM is working with other University of Houston areas with expertise in accounting and financial reporting to conduct regular and ongoing reviews of large transactions recorded in the University or the Foundation's financial systems to ensure appropriate recording.*
- *HPM is reviewing all financial and accounting business processes to help ensure that processes are sufficient to meet the departments' needs and ensure accurate and timely recording of transactions.*

Reconciliation of Underwriting Revenue, Accounts Receivable, and Unearned Revenue to Supporting Documentation for HPMF – During the course of our audit, we identified multiple areas for HPMF that were not reconciled to supporting documentation. This included underwriting revenue, accounts receivable, and unearned revenue. This resulted in incomplete and improper cut off of account balances. Any resulting audit adjustments were corrected by management as summarized in the Corrected Misstatements section of this letter. We recommend that management perform a reconciliation of accruals to ensure proper cutoff and completeness of account balances and accuracy of financial reporting.

Management's Response: As stated in the Corrected Misstatements section, Houston Public Media (HPM) agrees that the adjustment to accounts receivable was not made timely.

Management's Corrective Action Plan: HPM has reviewed its operations internally and with University and external subject matter experts in business management, accounting, and financial reporting, and is currently making multiple changes to help ensure the accuracy of its accounting and financial activities. These changes will be made over the next few months and will be substantially completed by December 31, 2023.

- *HPM is modifying its business operations structure to create a team of specialists focused primarily on accounting for major revenue sources (gifts, underwriting, grants) as well as the HPM Foundation and a team of generalists focused primarily on recurring business operations (contracts, human resources, payroll, reconciliations, etc.). Both teams will report to the same financial officer, who will provide oversight to ensure that all responsibilities are fulfilled, including monitoring to ensure the accurate recording, reconciliation and review of transactions.*
- *In addition to increasing internal expertise and review processes, HPM is working with other University of Houston areas with expertise in accounting and financial reporting to conduct regular and ongoing reviews of large transactions recorded in the University or the Foundation's financial systems to ensure appropriate recording.*
- *HPM is reviewing all financial and accounting business processes to help ensure that processes are sufficient to meet the departments' needs and ensure accurate and timely recording of transactions.*

Capital Asset Projects – During the course of our audit, we noted that management had not appropriately accounted for funds that were transferred to the University of Houston Planning & Construction Office to fund a project for the Stations' upcoming generator project. This resulted in an overstatement of expenses. The resulting audit adjustment was corrected by management as summarized in the Corrected Misstatements section of this letter. We recommend that management evaluate their procedures related to tracking capital asset projects to ensure that any pre-funded projects are properly reported.

Management's Response: As stated in the Corrected Misstatements section, Houston Public Media (HPM) agrees that the correct methodology of accounting for an internal transfer in stand-alone financial statements was not selected.

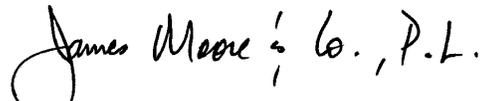
Management's Corrective Action Plan: HPM has reviewed its operations internally and with University and external subject matter experts in business management, accounting, and financial reporting, and is currently making multiple changes to help ensure the accuracy of its accounting and financial activities. These changes will be made over the next few months and will be substantially completed by December 31, 2023.

- *HPM is modifying its business operations structure to create a team of specialists focused primarily on accounting for major revenue sources (gifts, underwriting, grants) as well as the HPM Foundation and a team of generalists focused primarily on recurring business operations (contracts, human resources, payroll, reconciliations, etc.). Both teams will report to the same financial officer, who will provide oversight to ensure that all responsibilities are fulfilled, including monitoring to ensure the accurate recording, reconciliation and review of transactions.*
- *In addition to increasing internal expertise and review processes, HPM is working with other University of Houston areas with expertise in accounting and financial reporting to conduct regular and ongoing reviews of large transactions recorded in the University or the Foundation's financial systems to ensure appropriate recording.*
- *HPM is reviewing all financial and accounting business processes to help ensure that processes are sufficient to meet the departments' needs and ensure accurate and timely recording of transactions.*

To the Board of Regents,
University of Houston System
March 16, 2023
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This report is intended solely for the information and use of the Board of Regents, University of Houston System, and management of Houston Public Media and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,


JAMES MOORE & CO., P.L.

**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, 2022, Report No. 23-315 (excerpts)
- State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2022, Report No. 23-555 (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 23-315 – State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2022 (excerpts) and 23-555 – State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2022 (excerpts)

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



CHIEF AUDIT EXECUTIVE

Phillip W. Hurd

4/28/2023

DATE



CHANCELLOR

Renu Khator

5/11/23

DATE

State Auditor Reports

State Auditor Reports	Report No.	Page No.
23-315—State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2022		
Key Points of Report No. 23-315	23-315	2
State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2022, Excerpts of Report No. 23-315		3
23-555—State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2022	23-555	
<p>The State’s basic financial statements for fiscal year 2022 were materially correct and presented in accordance with accounting principles generally accepted in the United States of America.</p> <p>There were no key points related to the University of Houston System or its universities.</p>		

State of Texas Federal Portion
of the Statewide Single Audit Report for the
Year Ended August 31, 2022

Finding Report Number	University	Testing Area	Finding	Estimated Implementation Date	Repeat Finding	Questioned Costs	Type of Finding
2020-126	UH	Institutional Eligibility	Develop and implement procedures to demonstrate compliance with the incarcerated student limitation.	August 2022	No	\$0	Significant Deficiency and Non-Compliance
2020-132	UHCL	Institutional Eligibility	Strengthen controls to ensure correct calculation of students' cost of attendance budgets in accordance with internal processes.	March 2023	No	\$0	Significant Deficiency and Non-Compliance
2020-132	UHCL	Federal Pell Grant	Award students the correct amount of Federal Pell Grant assistance for an award year.	Action Complete	No	\$0	Significant Deficiency and Non-Compliance
2020-133	UHCL	Verification	Strengthen controls to ensure accurate verification of all required FAFSA information for students selected for verification.	February 2023	No	\$0	Significant Deficiency and Non-Compliance
2020-134	UHCL	Return of Title IV Funds	Strengthen controls to ensure accurate calculation of returns of Title IV funds when required, including review of the variables used in those calculations.	April 2023	No	\$0	Significant Deficiency and Non-Compliance
2020-134	UHCL	Return of Title IV Funds	Strengthen monitoring controls to ensure detection and correction of errors in return of Title IV calculations and return Title IV funds within required time frames.	April 2023	No	\$0	Significant Deficiency and Non-Compliance
2020-135	UHCL	Enrollment Reporting	Strengthen controls to ensure that program-level data elements are reported to National Student Loan Data System (NSLDS) accurately.	April 2023	No	\$0	Significant Deficiency and Non-Compliance
2020-135	UHCL	Enrollment Reporting	Ensure that students who unofficially withdrew from a term are reported to NSLDS.	April 2023	No	\$0	Significant Deficiency and Non-Compliance



State of Texas Federal Portion of the

Statewide Single Audit Report for the Year Ended August 31, 2022



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

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February 2023
Report No. 23-315

**STATE OF TEXAS
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University of Houston

- 2020-126 Eligibility**
Special Tests and Provisions – Institutional Eligibility
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

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 Non-Compliance
Questioned Costs:	\$0
Repeat finding:	No
Initial Year Written:	2020
Status:	Partially Implemented

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.

Recommendation:

The University should develop and implement procedures to demonstrate its compliance with the incarcerated student limitation.

Views of Responsible Officials 2020:

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 2020:

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.

2020-126 (Continued)

Views of Responsible Officials 2021:

The University acknowledges and agrees with the finding. Through analysis of the exceptions identified in the audit, the University is developing corrective action to further improve the process.

Corrective Action Plan 2021:

The UH Office of Scholarships and Financial Aid is working with the Office of Online & Special Programs and the Office of Institutional Research and Information Management to put in place an automated process that will allow identification of incarcerated students from the population of students enrolled in online programs. Prior to the full implementation of the developing automated process, we continue to routinely run a query to search for key words in addresses that might indicate that a student is possibly incarcerated. The query searched financial aid applicants for both 2021 and 2022 and no students were identified by the query as possibly being incarcerated.

Views of Responsible Officials 2022:

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

Corrective Action Plan 2022:

The University of Houston has implemented an automated process to prevent incarcerated students from receiving federal financial aid. Each term, students who are enrolled in online classes only (no in-person enrollment) are identified via a query. Those students are then assigned a task on their myUH To Do List to complete a questionnaire that asks if they are incarcerated. Students who answer “no” have their financial aid released for disbursement. If a student answers “yes”, the student’s aid is cancelled. If a student reaches out because they have accidentally answered “yes”, the student must provide a notarized statement to confirm the correct answer. Disbursement of all aid for students enrolled in all online classes is on hold until the correct, negative response is received.

Implementation Date(s): August 1, 2022

Responsible Persons: Briget Jans and Lety Gallegos

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 Non-Compliance**
Questioned Costs: **\$135,318**
Repeat finding: **No**
Initial Year Written: **2020**
Status: **Partially Implemented**

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 1087II).

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).

2020-132 (Continued)

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.

Recommendation:

The University should strengthen its controls to ensure that it correctly calculates students' COA budgets in accordance with its process.

Views of Responsible Officials 2020:

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 2020:

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.

Views of Responsible Officials 2021:

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 2021:

Multi-level review was created to verify and find any potential issues. A query was developed to identify all budget items for each student within the prompted aid year to allow student specific review of cost of attendance. Query name: UHCL_FA_BUDGET_REVIEW_FS and UHCL_FA_BUDGET_REVIEW_summer.

Views of Responsible Officials 2022:

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 2022:

The error occurred due to a miscalculation when building the cost of attendance. The above corrective action worked to identify any issues in PS compared to the calculated cost of attendance, but did not check the creation of the cost of attendance/budgets. UHCL will implement a business process to review the original calculations of the cost of attendance figures so that errors do not occur.

UHCL followed our business process to update the housing budget when conflicting information is received, but it is future dated for the term following receipt of the information. We are requesting confirmation from the Department of Education to confirm, but if this is incorrect, a query will be build to identify and update the students cost of attendance when information is received.

Implementation Date(s): March 2023

Responsible Person: Holly Nolan

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.

Corrective Action:

Corrective action was taken.

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 Non-Compliance
Questioned Costs:	\$0
Repeat finding:	No
Initial Year Written:	2020
Status:	Partially 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 (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).

2020-133 (Continued)

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.

Recommendation:

The University should strengthen its controls to ensure that it accurately verifies all required FAFSA information for students selected for verification.

Views of Responsible Officials 2020:

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 2020:

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.

Views of Responsible Officials 2021:

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 2021:

Additional training and webinars were provided to Financial Aid staff on required documentation and verification procedures. They participated in viewing NASFAA webinars on verification and updates. UHCL staff members also participated in the Federal Student Aid Conference to receive the most up to date information on verification. Sample files were selected for upper-level management to review for accuracy. Any issues were resolved in a timely manner if identified and additional training made available if there are particular issues.

Views of Responsible Officials 2022:

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.

2020-133 (Continued)

Corrective Action Plan 2022:

UHCL has updated the chart the Verification counselor uses to separate income to be more specific about how to divide each element of ISIR data when a student is separated/divorced. We will also pull more verification files that have corrections made to verify the process. If any issues are found, further training and checks will be processed.

Implementation Date(s): February 2023

Responsible Person: Holly Nolan

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 Non-Compliance
Questioned Costs: \$0
Repeat finding: No
Initial Year Written: 2020
Status: Partially Implemented

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.

2020-134 (Continued)

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)).

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.

2020-134 (Continued)

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.

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.

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.
- 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.

Views of Responsible Officials 2020:

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 2020:

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.

2020-134 (Continued)

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.

Views of Responsible Officials 2021:

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 2021:

Peoplesoft system was reviewed and the additional feature was added/set-up to automatically pull and calculate the total eligible charges into the Return to Title IV worksheet. The counselor processing the return still manually adds up the eligible charges to double-check all calculations on the returns. Days and number of days, as with all calculations are checked at the beginning of the term by upper-level-management to make sure they are accurate at the term start. Random checks of returns during the term are reviewed for quality assurance by upper-level management.

Views of Responsible Officials 2022:

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 2022:

During file review, UHCL will also review the Return Report to make sure all returns were processed within the required timeline.

The Return Counselor will run the module query to identify students that have withdrawn from multiple modules in a term. This query identifies the date of withdrawal for each module since the Registrar updates the date to reflect the withdrawal date of the student.

Implementation Date(s): April 2023

Responsible Person: Holly Nolan

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)).

2020-134 (Continued)

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.

Corrective Action:

Corrective action was taken.

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 Non-Compliance
Questioned Costs:	\$0
Repeat finding:	No
Initial Year Written:	2020
Status:	Partially Implemented

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.

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.

2020-135 (Continued)

Views of Responsible Officials 2020:

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 2020:

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.

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.

Views of Responsible Officials 2021:

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 2021:

We have reviewed our process for updating program changes and will ensure that any changes made after the first day of the term are future dated to be effective the next term.

Views of Responsible Officials 2022:

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 2022:

Vacancies in critical positions created a challenge with regard to implementing the previously agreed upon plan to resolve this finding. Moving forward, the plan will be fully executed as stated.

When extracting the information, the system does not appear to be pulling it correctly. We will need to seek counsel from Oracle or the internal Functional Analyst for review and assistance to resolve this matter.

Registrar's Office staff will be retrained to comply with this finding. When a program plan change is requested after the start of the term, the current program will remain in effect until the day before the start of the subsequent term denoting a Discontinued status for that date. Conversely, the new program will have a status start date equal to the beginning of the subsequent term date.

A query will be built to identify the program plan by term and perform subsequent updates if needed. The query will be used as a periodic review of the data to ensure accuracy.

Implementation Date(s): April 2023

Responsible Person: Andrea J. Celestine

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

COMMITTEE: Audit and Compliance

ITEM: Report on University of Houston System, UH System Support Organizations, FY 2022

- 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 2022

- Compliance Review of UH System Support Organizations
- UH System Support Organizations Report

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



4/28/2023

CHIEF AUDIT EXECUTIVE

Phillip W. Hurd

DATE



5/11/23

CHANCELLOR

Renu Khator

DATE

SYSTEM SUPPORT ORGANIZATIONS
As of May 5, 2023

	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
Confirmation of Board Meetings when scheduled	✓	✓	✓	✓	✓	✓	✓
Any changes to Support Organization's Mission Statement	✓	✓	✓	✓	✓	✓	✓
Notification of any change to 501(c)(iii) status	✓	✓	✓	✓	✓	✓	✓
Articles of Incorporation and Bylaws (1)	✓	✓	✓	✓	✓	✓	✓
Current List of Board Members (2)	✓	✓	✓	✓	✓	✓	✓
Audited Financial Report for FY2022 (3) (Date Completed)	Jan-23	Dec-22	Jan-23	Mar-23	Feb-23	Dec-22	Dec-22
IRS Form 990 for FY2022 (Calendar Year 2021) (4) (Date Completed)	Apr-23	Projected: End of May	Projected: July 2023	Mar-23	Projected: June 15	Projected: By BOR Mtg	Feb-23
Donor Gift Information (5)	✓	✓	✓	✓	✓	✓	✓
Written Investment Policies (6)	✓	✓	✓	✓	✓	✓	✓
Confirmation of Certificates of Insurance as required	✓	✓	✓	✓	✓	✓	✓
Updated State Disclosure Statement for Outside Financial Advisors (7)	Apr-23	Does Not Use External Advisors	Does Not Use External Advisors	Does Not Use External Advisors	Feb-22	Mar-23	Does Not Use External Advisors
Date of Most Recent Signed Agreement And/or Extension Agreement	Updated MOU Agrmt - Signed by Foundation April 2023	Extension Agrmt - February 2023	Extension Agrmt - February 2023	Updated MOU Agrmt - Signed by Foundation April 2023	Updated MOU Agrmt - Signed by Foundation March 2023	Extension Agrmt - February 2023	Extension Agrmt - February 2023
Conflicts of interest policy and certification of Trustee/Director compliance (8)	✓	✓	✓	✓	✓	✓	Projected week of May 8th

✓ Indicates compliance item has been satisfied.

Note 1: SAM 08.A.02 reporting requirement:

- (1) At the time the current agreement is established and whenever there are changes to either document. [§ 4.1.1]
- (2) At the time the current 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 2022

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, Foundation for Education and Research in Vision, University of Houston Alumni Association Foundation, and Houston Cougars 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 \$258 million as of August 31, 2022. The investment returns of the foundations range from -14.63% to 1.79% for the year ending August 31, 2022.
- The foundations paid professional investment fees during fiscal year 2022.
- Four Foundations have full or part-time employees: 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 2022
As of May 8, 2023

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	Forvis Houston	Blazek & Vetterling; Houston	James Moore & Co., P.L.; Gainesville, FL	PWR CPA, LLP Houston	Crowe LLP	Ham, Langston & Brezina Houston
Tax Accountant	Blazek & Vetterling; Houston	Forvis Houston	Blazek & Vetterling; Houston	James Moore & Co., P.L.; Gainesville, FL	Wrinkle Gardner and Co.	Crowe LLP	Stefanie Martinez CPA, PLLC
Financial Data, as of	<u>8/31/2022</u>	<u>8/31/2022</u>	<u>8/31/2022</u>	<u>8/31/2022</u>	<u>8/31/2022</u>	<u>8/31/2022</u>	<u>8/31/2022</u>
Assets							
Cash & investments	\$ 174,615,147	\$ 51,604,672	\$ 32,790,442	\$ 3,009,939	\$ 9,507,246	\$ 11,006,123	\$ 3,595,820
Other assets	1,480,798	8,257,415	6,140,520	712,096	20,357	510,342	0
Total Assets	<u>\$ 176,095,945</u>	<u>\$ 59,862,087</u>	<u>\$ 38,930,962</u>	<u>\$ 3,722,035</u>	<u>\$ 9,527,603</u>	<u>\$ 11,516,465</u>	<u>\$ 3,595,820</u>
Liabilities	\$ 11,901,187	\$ 87,899	\$ 2,954,995	\$ 325,410	\$ 67,889	\$ 96,003	\$ 0
Net Assets	<u>\$ 164,194,758</u>	<u>\$ 59,774,188</u>	<u>\$ 35,975,967</u>	<u>\$ 3,396,625</u>	<u>\$ 9,459,714</u>	<u>\$ 11,420,462</u>	<u>\$ 3,595,820</u>
Revenues							
Contributions (gifts)	\$ 4,938,317	\$ 6,361,361	\$ 3,194,588	\$ 11,315,757	\$ 570,119	\$ 914,592	\$ 1,659
Investment income	(28,475,565)	(6,981,236)	(3,406,744)	(383,525)	(1,002,910)	(436,632)	(520,154)
Other	1,476,079	1,424	473,251	4,127,254	785,127	2,679,630	17,246
Total Revenues	<u>\$ (22,061,169)</u>	<u>\$ (618,451)</u>	<u>\$ 261,095</u>	<u>\$ 15,059,486</u>	<u>\$ 352,336</u>	<u>\$ 3,157,590</u>	<u>\$ (501,249)</u>
Expenses, including gifts-in-kind	<u>\$ 9,044,317</u>	<u>\$ 3,966,445</u>	<u>\$ 3,794,488</u>	<u>\$ 15,254,346</u>	<u>\$ 861,386</u>	<u>\$ 3,448,631</u>	<u>\$ 64,858</u>
Investments – MV as of August 31, 2022 (1)							
Investments	\$ 158,100,140	\$ 50,356,317	\$ 30,055,483	\$ 1,670,148	\$ 5,356,169	\$ 9,767,907	\$ 3,590,165
Return FY22 (1-yr)	-14.63%	-12.37%	-9.98%	0.00%	-10.10%	-4.29%	1.79%
Management Fees	\$ 623,813	\$ 0	\$ 189,791	\$ 0	\$ 73,556	\$ 67,286	\$ 17,951
Mgt Fees as a % of total investment	0.395%	0.000%	0.631%	0.000%	1.373%	0.689%	0.500%
Investment Return FY20	2.38%	12.68%	12.50%	2.38%	4.30%	4.60%	1.20%
Investment Return FY21	32.20%	22.52%	21.95%	32.20%	17.80%	29.18%	13.51%
Gifts and Pledges to Foundation (2)							
Received in FY22	\$ 5,883,069	\$ 6,446,983	\$ 3,567,474	\$ 20,857,466	\$ 232,958	\$ 968,770	\$ 0

(1) Source: Data provided by UHS Treasurer's Office.

(2) Source: Data provided by University Advancement Division.

(3) FY2022 IRS Form 990 not available at this time.

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

COMMITTEE: Audit and Compliance

ITEM: Report on University of Houston System, Data Analytics Future

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

Over the past 36 months the Internal Auditing Department (IAD) has changed the way it conducts audits, reviews, risk assessments and investigations. This presentation will explain the transition and showcase selected analytics from audit reports presented later in the meeting.

In addition, the next two years of projected use of Artificial Intelligence (AI) and Robotic Process Automation (RPA) and the growing use of AI in reshaping the IAD will be discussed and selected elements will be demonstrated.

**SUPPORTING
DOCUMENTATION:**

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



4/28/2023

CHIEF AUDIT EXECUTIVE

Phillip W. Hurd

DATE



5/11/23

CHANCELLOR

Renu Khator

DATE

Report to the Audit and Compliance Committee
of the University of Houston System
Board of Regents
May 18, 2023

UNIVERSITY OF HOUSTON SYSTEM
DATA ANALYTICS FUTURE

Presentation by
Phillip W. Hurd, Chief Audit Executive

**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 FY 2023 Internal Audit Activity since February 23, 2023, and Internal Audit Reports issued since the February 23, 2023, Audit & Compliance Committee meeting of the Board of Regents of the University of Houston System are provided.

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 Activity and Internal Audit Reports

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:**

Information

COMPONENT:

University of Houston System



4/28/2023

CHIEF AUDIT EXECUTIVE

Phillip W. Hurd

DATE



CHANCELLOR

Renu Khator

DATE

5/11/23

Report to the Audit and Compliance Committee
of the University of Houston System
Board of Regents
May 18, 2023

UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT

FY23 INTERNAL AUDIT ACTIVITY
since February 23, 2023

and

INTERNAL AUDIT REPORTS

- AR2023-10 Contracts Requiring Board of Regents' Approval
- AR2023-12 UHV Travel Expense
- AR2023-13 UHCL Procurement Card Management

Note: This internal audit report is 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. This internal audit report is 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.

FY23 Internal Audit Activity

Since February 23, 2023 Board of Regents Meeting

Audits Completed

- Contracts Requiring Board of Regents Approval (UHS)
AR2023-01 AR2023-10
AR2023-08
- Board of Regents Travel and Entertainment FY22
AR2023-02
- Chancellor/President's Travel and Entertainment FY22 (UHS/UH)
AR2023-03
- UHCL President's Travel and Entertainment FY22
AR2022-04
- UHD President's Travel and Entertainment FY22
AR2023-05
- UHV President's Travel and Entertainment FY22
AR2023-06
- UHCL Research Governance and Process Overview
AR2023-07
- UH Education Research Center
AR2023-09
- UH Research Governance and Process Overview
AR2023-11
- UHV Travel Expense
AR2023-12
- UHCL Procurement Card Management
AR2023-13

Internal Audit 05/18/23

Special Projects Completed

- UHS Institutional Compliance Fraud and Non- Compliance Hotline Reports
- UH/UHD Formula Funding issue – referred by THECB

Audits in Progress

- Travel Expense (UH, UHCL, and UHD)
- Board of Regents Travel and Entertainment FY23
- President's Travel and Entertainment FY23 (UH, UHCL, UHD and UHV)
- Contracts Requiring Board of Regents Approval (UHS)
- Procurement Card Management (UH, UHD, and UHV)
- Research Labs (UH, UHCL, UHD, and UHV)

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Special Projects in Progress

- UHS Institutional Compliance Fraud and Non-Compliance Hotline (Varies per FY)
- UH information security (multiple reports)
- UHCL Apartment Contract
- UH Bursar's Office
- UH Financial Aid

Audits in Planning

- UH Education Research Center

Cancelled Audits

- NCAA Rules Compliance
- UH Football Attendance
- Compliance Program Analysis (UH, UHCL, UHD, and UHV)
- Benefits Proportionality (UHS, UH, UHCL, UHD, and UHV)



Report to the Audit and Compliance Committee of the
UHS Board of Regents on:

CONTRACTS REQUIRING BOARD OF REGENTS APPROVAL
AR2023-10

UNIVERSITY of **HOUSTON** SYSTEM

INTERNAL AUDITING DEPARTMENT



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 6, 2023

SUBJ: Internal Audit Report – 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 contracts requiring Board of Regents approval covers the time period from January 1, 2023, through March 31, 2023. 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 18, 2023 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
Contracts Requiring Board of Regents Approval
January 1, 2023 through March 31, 2023

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.

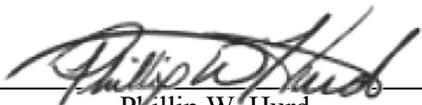
Scope of Work: The internal audit review of procurement of construction and other contracts requiring Board of Regents approval covers the time period from January 1, 2023 through March 31, 2023.

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.


Phillip W. Hurd
Chief Audit Executive
March 31, 2023

Contracts Requiring Board of Regents Approval
Internal Audit Activity
January 1, 2023 to March 31, 2023

Project or Contract Description	Solicitation Type	(\$ Millions) Amount	BOR Approval		Internal Audit Review	
			FCMP Comm. (Scope) Date	F&A Comm. (Financing) Date	Initiated	Completed
<u>Construction Projects \$10 Million and Over</u>						
UHS - System-Wide Energy Supply	RFP	200.0	12/2/2021	12/2/2021	✓	✓
UH - CMAR College of Technology Building at UH Sugar Land	RFP	53.4	12/2/2021	12/2/2021	✓	✓
UHV - Health & Wellness Center Phase 1 at UHV	RFP	25.1	2/24/2022	2/24/2022	✓	✓
UH - AE Core Equipment Installation for Centers	RFQ	19.0	5/19/2022	5/19/2022	✓	✓
UH - Disaster Restoration and Emergency Recovery Services	RFP	30.0	2/23/2023	2/23/2023	✓	
<u>Construction Projects Over \$1 Million and Under \$10 Million</u>						
UH - Guy V Lewis Renovations	RFP	5.1	N/A	5/19/2022	✓	✓
UH - Pro Services Asbestos and Env Remediation - As Needed	RFQ	4.5	N/A	2/23/2023	✓	✓
<u>Non-Construction Contracts Over \$1 Million</u>						
UH - AE Services for Centennial Project	RFQ	3.0	N/A	5/19/2022	✓	
UH - Laundry Machine Services	RFP	3.3	N/A	11/29/2022	✓	✓
UH - Fuel Provider	RFP	2.6	N/A	2/23/2023	✓	✓
UH - University of Houston Magazine	RFP	3.0	N/A	2/23/2023	✓	✓
UH - Parking Management Services	RFP	10.0	N/A	2/23/2023	✓	✓
UHD - Digital Marketing	RFP	4.5	N/A	5/18/2023	✓	

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.

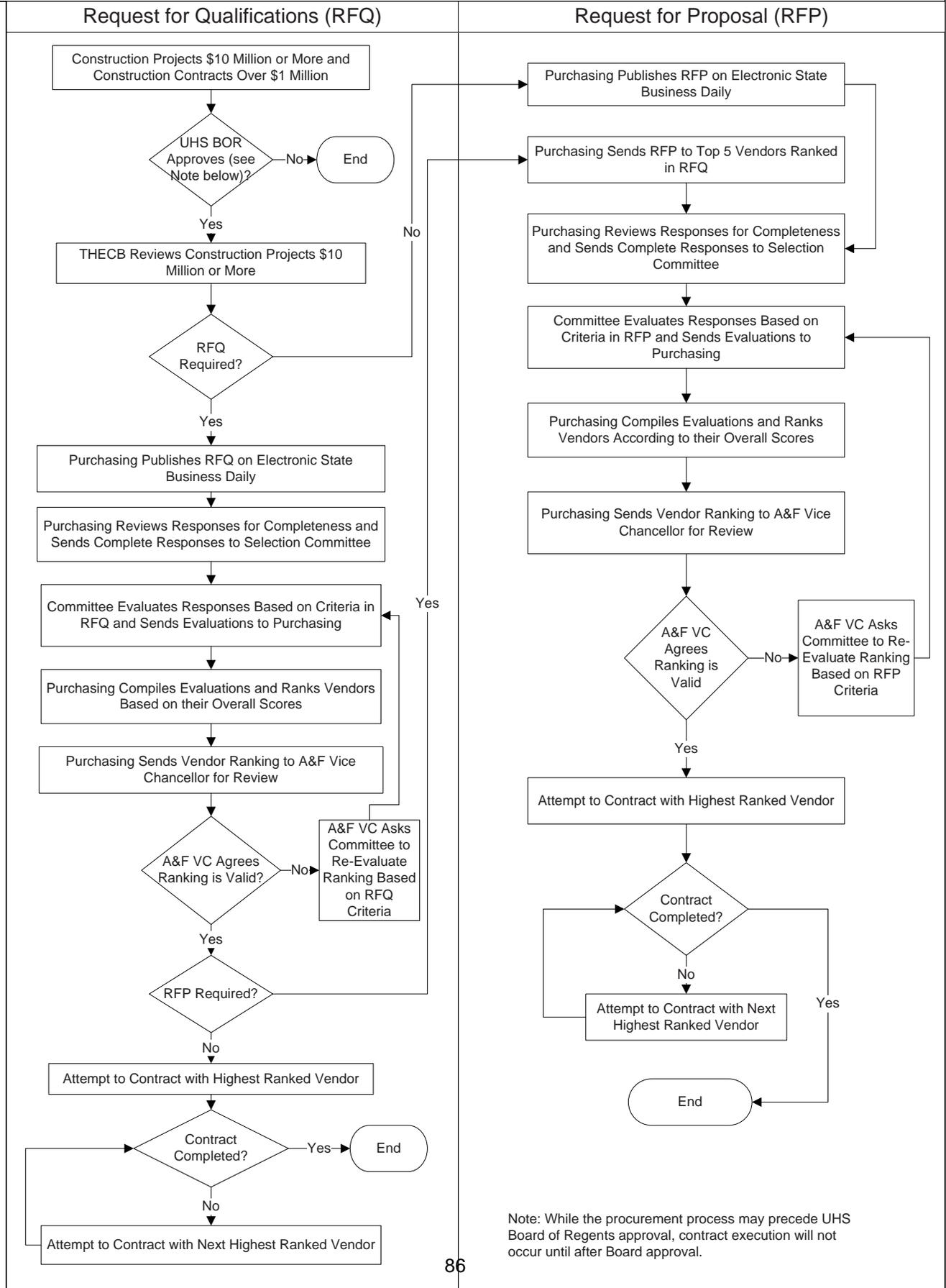
RFP - Request for Proposal

RFQ - Request for Qualifications

FE - Furnishings and Equipment

CSP - Competitive Sealed Proposal

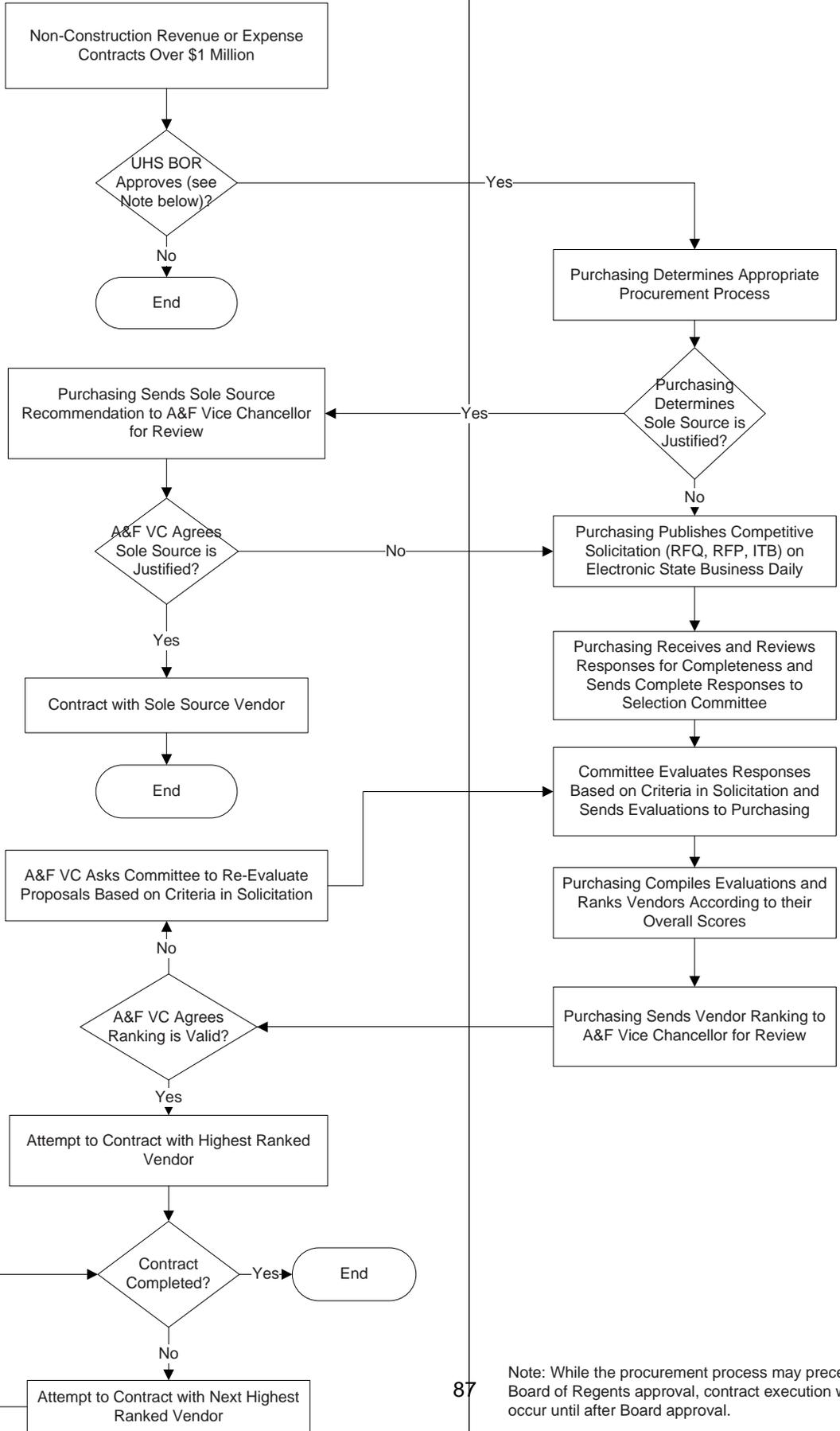
University of Houston System Construction Projects \$10 Million or More and Construction Contracts Over \$1 Million



Note: While the procurement process may precede UHS Board of Regents approval, contract execution will not occur until after Board approval.

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:

**UNIVERSITY OF HOUSTON – VICTORIA
TRAVEL EXPENSE
AR2023-12**

UNIVERSITY of HOUSTON SYSTEM

INTERNAL AUDITING DEPARTMENT

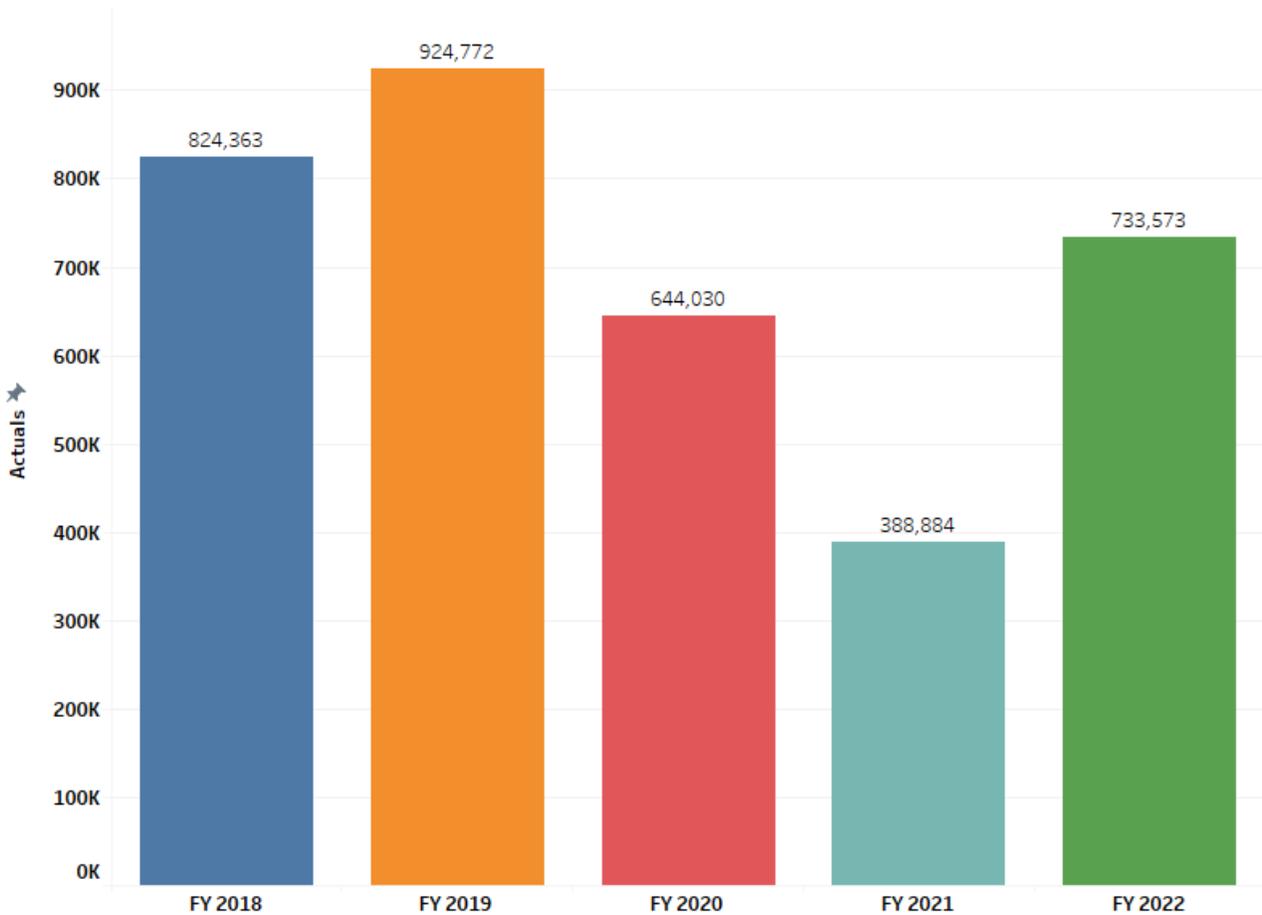
EXECUTIVE SUMMARY

Overview and Scope Summary

This is a performance audit of University of Houston-Victoria’s (“UHV”) current travel policies, procedures, and expenses. The purpose of the audit is to determine efficiency and effectiveness of the controls, processes, and compliance with policies.

The scope is UHV travel related expenditures for Fiscal Year (FY) 2018 through FY 2022.

UHV Travel Expense by Fiscal Year



Overall Audit Opinion

The audit identified opportunities to improve the effectiveness and efficiency of the travel processes.

Summary of Recommendations:

1. Develop travel policies and procedures to:
 - Ensure compliance with SAM 01.C.05, Executive Travel.
 - Restrict the use of peer-to-peer payment services to instances where peer-to-peer is the **ONLY** payment method accepted by the vendor.
 - Require all travel requests include estimated expenditure amounts.
 - Require travel request forms when mileage reimbursement is expected to exceed a specified amount.
 - Require approval and written explanation when actual travel costs exceed estimated travel costs.
 - Attach supporting grant documentation to travel request when travel is paid with grant funds.
 - Perform periodic review (at least annually) of travel card credit limits and monthly usage to ensure each travel card limit is appropriate.
 - Conduct employee background and credit checks prior to issuance of individual and department travel cards and for employees responsible for managing the travel card function.
2. Develop a continuous improvement process which includes identifying best practices and performance metrics.
3. Monitor all UHV travel policies and procedures for revisions by the review date.
4. Implement an automated travel management system such as Concur, which is used by UH, as resources become available and in priority order.

Management's Response:

Management has discussed and agree with the recommendations to improve travel expense operations. We have already begun taking steps to implement the recommendations and looking into the feasibility of others. Steps we have already taken or are currently working on include:

- Reviewing all travel policies and procedures to ensure compliance with system policies.
- Developing procedures to restrict peer-to-peer payments.
- Developing procedures to require travel requests for mileage reimbursements over a certain threshold.
- Developing procedures to review travel expenses that exceed estimated expenses by a certain threshold.
- Reviewing and lowering credit limits on travel cards.
- Developing procedures to ensure background checks have been completed within six months prior to issuing travel cards.
- Reviewing all policies and procedures to ensure reviews are completed by the next review dates specified in policy.
- Requiring all documentation to be uploaded as backup and reviewed by the travel specialist prior to approving vouchers.
- Educating cost center managers on reviewing available funds prior to approving travel requests.
- Reviewing our budget annually to determine the feasibility of implementing an automated travel system.
- Developing data analytics for monitoring the travel expense key metrics and business rule deviations.

* * * * *

The UHS Department of Internal Auditing would like to thank the Finance Department, Accounts Payable, and the Travel Team for their cooperation and assistance during this review.

Sincerely,



Phillip W. Hurd
Chief Audit Executive
University of Houston System

PWH/pwh/PC Audit

Participating Auditors: Eric Porter, Elias McClellan, Kim Gerry, and Brandee O'Neal



Report to the Audit and Compliance Committee of
the UHS Board of Regents on:

**UNIVERSITY OF HOUSTON – CLEAR LAKE
PROCUREMENT CARD MANAGEMENT
AR2023-13**

UNIVERSITY of HOUSTON SYSTEM

INTERNAL AUDITING DEPARTMENT

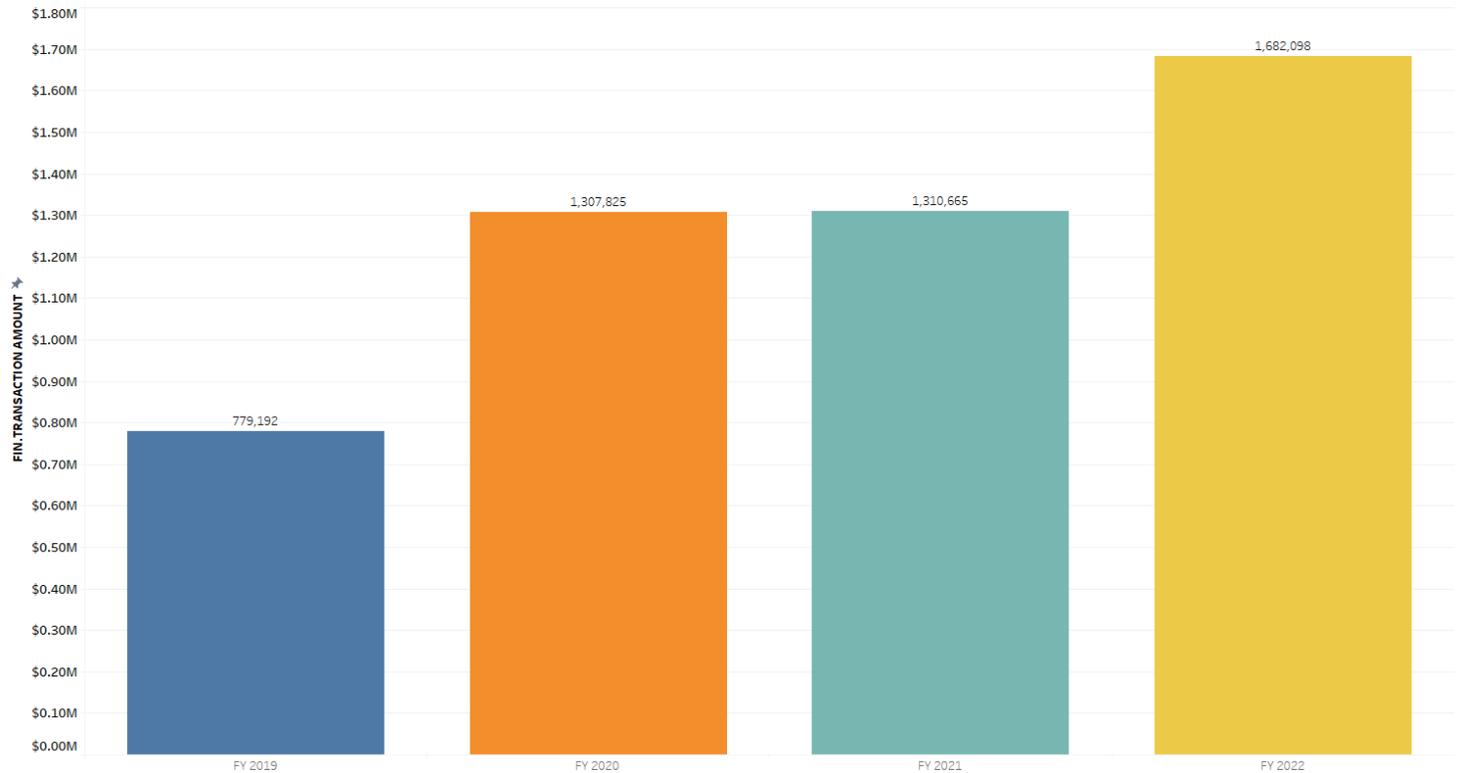
EXECUTIVE SUMMARY

Overview and Scope Summary

This is a performance audit of University of Houston-Clear Lake (UHCL) current Procurement Card (P-Card) policies, procedures, and use. The audit will be used to gauge efficiency, effectiveness, control systems, compliance, and appropriate use of P-Cards at UHCL.

The scope is Fiscal Year (FY) 2019 through FY 2022.

UHCL Procurement Card - Spend by Year



Overall Audit Opinion

UHCL P-Card administration has processes, policies, and guidance in place for managing P-Card related activities. The audit identified policy, procurement, cardholder use and P-Card user guide enhancement opportunities. Additional control enhancements are needed to achieve maximum effectiveness.

Summary of Recommendations:

- Set credit limits to the maximum expected single month spend based on the previous year's spend on the P-Card for that, or similar, area.
- Issue only one card to one individual.
- Require credit checks for all cardholders prior to issuance of a card and, at least, annually.
- Use data analytics to create an enhanced review of level one/two vendors and payment/credit processors such as PayPal, Amazon, etc.
- Create a database of violations, regardless of the reason for the violations, and use it as the basis for policy actions and control enhancements.
- Require reconciliation due dates be within five business days after the end of the current cycle.
- Require department management to oversee the return of purchase cards, specifically, the direct supervisor or manager of the unit.
- Evaluate the use of buying club memberships to ensure that they are cost beneficial to use.

- Evaluate the feasibility of a UHCL level of contract or membership for places like buying clubs.
- Eliminate the use of shadow systems for P-Card management.
- Use data analytics such as PowerBI, Tableau, or other tools available to monitor business rule violations such as split transactions, etc.
- Use Citibank control panels (MMC/Commodity Code) to limit purchases of questionable or prohibited items.
- Set up a centrally defined procedure for P-Card purchases of gift or stored value cards which includes monitoring and distribution of cards.
- Use an internal means of payment such as journal entry, transfer of funds, etc. for internal purchases.

Management's Response:

Management has discussed and agree with the recommendations to improve procurement card operations. We have already begun taking steps to implement the recommendations and looking into the feasibility of others. Steps we have already taken or are currently working on include.

- Reviewing and lowering credit limits on procurement cards.
- Partnering with HR to develop a process for review of prospective cardholders.
- Developing a process for tracking violations and imposing sanctions.
- Developing a process for reviewing and monitoring club memberships.
- Blocked additional merchant category codes from allowed vendors.
- Developing data analytics for monitoring the procurement card program.

* * * * *

The UHS Department of Internal Auditing would like to thank the Accounts Payable and Procurement Departments for their cooperation and assistance during this review.

Sincerely,

A handwritten signature in black ink, appearing to read "Phillip W. Hurd". The signature is fluid and cursive, with the first name being the most prominent.

Phillip W. Hurd
Chief Audit Executive University of Houston
System

PWH/pwh/PC Audit

Participating Auditors: Emily Tran, Tony Moreno, and Brandee O'Neal

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

COMMITTEE: Audit and Compliance

ITEM: Report on Results of the Quality Assessment Review (QAR) of University of Houston System Internal Audit, 2023

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Internal Auditing Department is required by the Texas Internal Auditing Act to undergo a comprehensive external peer review every three years. The peer review team concluded that the internal auditing department generally conforms to the International Standards for the Professional Practice of Internal Auditing.

SUPPORTING

DOCUMENTATION: Report on Results of the Quality Assessment Review (QAR) of University of Houston System Internal Audit, 2023

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



4/28/2023

CHIEF AUDIT EXECUTIVE

Phillip W. Hurd

DATE



CHANCELLOR

Renu Khator

5/11/23

DATE

**Report on the Results of the
Quality Assessment Review (QAR) of
the University of Houston System
Internal Audit, 2023**

Reviewers:

***Robert Clark, Jr., CCEP, CIA, CBM
Mary Krauss, CISA, CRISC, GCIH***

Submitted to: Mr. Phillip Hurd, CIA, CCEP
Chief Audit Executive
The University of Houston System

May 12, 2023

Mr. Phillip Hurd, Chief Audit Executive
The University of Houston System
Technology Bridge
5000 Gulf Freeway, Bldg. 3, Room 280
Houston, TX 77204-0930

Dear Mr. Hurd:

We have completed an Independent Full External Quality Assessment Review (QAR) of the University of Houston System Internal Audit Program as required every three years by the Texas Internal Auditing Act (2102) and every five years by the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing (Standards)*. The objectives of the QAR were to:

1. Assess conformance with the IIA *Standards*;
2. Assess the effectiveness and efficiency of the Internal Audit activity in providing services to the Board of Regents and management of the University of Houston System; and
3. Identify opportunities for enhancing the Internal Audit Program at the University of Houston System.

We are pleased to report that it is our opinion that the **University of Houston System Internal Audit Department generally conforms to the IIA *Standards***, the highest rating available. We commend you for your leadership and progressive approach over the Internal Audit Department. We noted several areas of strength and two opportunities for enhancement that could improve the efficiency and effectiveness of the Internal Audit program. These are described in this report.

Sincerely,



Robert Clark, Jr., CCEP, CIA, CBM
Chief Audit & Compliance Officer
Office of Audit & Compliance
Howard University
Washington DC



Mary Krauss, CISA, CRISC, GCIH
IT Audit Manager
Office of Audit, Compliance & Privacy
Auburn University
Auburn AL

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Executive Summary

An Independent Review Team made up of professionals from Howard University and Auburn University conducted an independent full external Quality Assessment Review (QAR) of the University of Houston System (UHS) Internal Auditing Department. The work was conducted in accordance with the requirements of both the *International Standards for the Professional Practice of Internal Auditing* (the Standards), and the *Generally Accepted Government Auditing Standards* (GAGAS).

The UHS Internal Auditing Department and the independent review team assessed the organization using the Institute of Internal Auditors (IIA) Quality Assessment Manual, 2017 Edition. The primary purpose of a Quality Assessment Review is to determine the internal audit function's conformance with the Standards and GAGAS.

The Texas Internal Auditing Act §2102.0011, Internal Audit Standards, requires the internal audit program to conform to the Standards and the IIA's Code of Ethics contained in the Professional Practices Framework, and GAGAS. GAGAS requires an external peer review, performed by reviewers independent of the audit organization, to occur at least once every three years. Our review meets the GAGAS requirement.

The UHS Internal Audit Program was determined to **Generally Conform** to IIA *Standards and GAGAS*, the highest rating available. We noted several areas of strength within the Internal Auditing Department which we feel compelled to acknowledge:

- **Well-Established Governance Tone**
- **Board of Regents and Senior Management Support and Interaction**
- **Incorporation of Data Analytics and Artificial Intelligence into Audit Activities**
- **Professional Development of the Internal Auditing Staff**

Additionally, during the course of our work, we noted a few opportunities for enhancement within the UHS Internal Auditing Department that had already been identified by the CAE. Our encouragement would be for those efforts to continue:

- **Continue to update and enhance internal policies and procedures for coverage of newly incorporated activities of data analytics**
- **Augmentation of Internal Auditing staff to include IT Audit, Healthcare Audit & Compliance, Research Audit & Compliance, and Athletic Audit & Compliance professionals**

Both of these opportunities are further enumerated within this report along with UHS Internal Auditing's management response.

Overall, we want to thank the University of Houston System for their hospitality, professionalism, and commitment to maintaining a quality and high performing Internal Audit function.

Background and Scope

Background

The University of Houston System (UHS) provides, through the complementary missions of its four universities, access to comprehensive higher education programs and services to the diverse community of students in the Houston metropolitan area and beyond. The Internal Auditing Department conducts independent and objective reviews of university operations and procedures and reports findings and recommendations to the UHS Board of Regents, Chancellor and other executive officers.

UHS Internal Auditing Department

Organizationally, the internal audit function reports directly to the Board of Regents which includes the chief audit executive (CAE) reporting directly to the chair of the Board of Regents Audit and Compliance Committee. The Internal Auditing Department (IAD) includes the CAE, 7 professional staff, a Computer Support Analyst, and an Executive Administrative Assistant. The current CAE has been in place since 2020.

The CAE is a highly respected leader in internal auditing in higher education. The UHS IAD is regarded among its higher education peers as being on the leading edge of progressive internal auditing practices, especially in the use of data analytics. The reporting relationship and communication with the Audit and Compliance Committee and UHS' executive management team is a model that other institutions would do well to follow.

IIA Standards – Full External Quality Assessment

This External Quality Assessment of the UHS IAD was performed in accordance with The Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* (the Standards) utilizing the IIA's Quality Assessment Manual, 2017 Edition. The primary purpose of a Quality Assessment is to determine the internal audit function's conformance with the Standards. There are three possible outcomes of the QAR: the internal audit program generally conforms, partially conforms or does not conform with the Standards.

Conformance with IIA Standards

Generally Conforms means that IAD has a charter, policies and processes that are judged to meet the spirit and intent of the IIA *Standards* with some potential opportunities for improvement.

Partially Conforms means deficiencies in practice are noted that are judged to deviate from the spirit and intent of IIA *Standards*, but these deficiencies did not preclude IA from performing its responsibilities in an acceptable manner.

Does Not Conform means deficiencies in practice are judged to be so significant as to seriously impair or preclude IA from performing adequately in all or in significant areas of its responsibilities.

Additionally, the Texas Internal Auditing Act §2102.0011, Internal Audit Standards, requires the internal audit program to conform to the Standards and the IIA's Code of Ethics contained in the Professional Practices Framework, and Generally Accepted Government Auditing Standards (GAGAS). GAGAS requires an external peer review, performed by reviewers independent of the audit organization, to occur at least once every three years. Our review meets that GAGAS requirement.

Scope

We conducted the external quality assessment during the month of April 2023. The UHS Internal Auditing Department supplied the review team with the materials noted below in early April and we then conducted on-site procedures from April 3-6, 2023.

Engagement Methodology

Our procedures included review of the following documents:

- Audit Charter and other background/organizational materials regarding UHS and the internal audit program
- The charter for the UHS Board of Regents (BOR) Committee on Audit and Compliance
- UHS BOR Section V-Audit and Compliance, Policies 41.01-41.01.04
- Texas Government Code, Chapter 2101.001-*Texas Internal Auditing Act*
- System Administrative Memoranda (SAMs) 04.A.02-Audits by Internal Auditing
- QAR advanced preparation materials providing background on the internal auditing program and practices
- The annual audit plan and risk assessment process
- Selected internal audit project workpapers and reports
- Staff training histories
- Audit follow-up practices and reporting

The on-site procedures included:

- Interview with the Chairperson of the UHS BOR Audit and Compliance Committee
- Interview with the UHS Chancellor
- Interviews with UHS Internal Auditing Department staff and UHS officials (see Appendix I for the list of individuals interviewed)
- Analysis of the information reviewed and an assessment of compliance with the Standards

Opinion of Independent Review Team

Overall, **the UHS Internal Auditing Department was judged to Generally Conform to IIA Standards, the highest rating available.** While opportunities for enhancement remain in various areas, they did not preclude this assessment. We concluded the following individual standards Generally Conform to the IIA *Standards*:

- 1000—Purpose, Authority and Responsibility
- 1100—Independence and Objectivity
- 1200—Proficiency and Due Professional Care
- 1300—Quality Assurance and Improvement Program
- 2000—Managing the Internal Audit Activity
- 2100—Nature of Work
- 2200—Engagement Planning
- 2300—Performing the Engagement
- 2400—Communicating Results
- 2500—Monitoring Progress
- 2600—Communicating the Acceptance of Risks

Strengths, Opportunities for Enhancement, and Management Response

UHS Internal Audit Program Strengths

- **Governance**—The IIA Standards, **1110 – Organizational Independence**, states, “The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.”

We noted that the UHS CAE reports to the BOR Chair of the Audit and Compliance Committee and that executive sessions are held between the committee and the CAE, which evidences organizational independence. Additionally, the CAE meets monthly with the Chair as well as the Chancellor/President and senior leaders throughout the System to discuss internal audit operations. These activities demonstrate a best practice which all peer reviewers would recommend to their own institutions.

- **Board of Regents and Senior Management Support and Interaction**—Beyond just the formal reporting relationship, our interviews conveyed a high level of support for the IAD from the BOR of the UHS and senior management. The Internal Audit program is well respected and seen as collaborative and not a “gotcha” function. There is a high level of support for the CAE’s vision of incorporating more data analytics into their audit engagements. It was clear to us that management feels comfortable seeking their opinion of problematic situations. One of the senior leaders indicated appreciation that the Internal Audit function is now not just looking at past transactions and events, but, as this leader said, “Mr. Hurd is looking at what’s around the corner,” and having a proactive risk identification and mitigation posture. Another leader indicated that, “If I am in a ditch, I know I can call on Mr. Hurd because he’ll help pull me out.” It is evident to us that the CAE and the Internal Auditing Department at UHS is seen as a “trusted advisor.”
- **Incorporation of Data Analytics and Artificial Intelligence**—Our work identified that the Internal Auditing Program had established, since the last QAR, the use of data analytics and artificial intelligence to improve the effectiveness of audits and identify trends and items that may otherwise have been easily overlooked using the previous traditional sampling methodology. The tools being used, and the training that is being provided for the Internal Audit team, appears to have already led to demonstrable improvements in the identification of areas of risk that had previously not been assessed as comprehensively (e.g., P-Card audit). Our perspective is that this is a leading-edge practice in the profession of internal auditing in higher education. This is also expected to be emphasized in the updated IIA Standards that should be forthcoming in the next year. We believe this will add significant value to the BOR and leadership of the UHS and that the University of Houston Internal Audit function will be recognized as proactive industry leaders in this space.
- **Professional Development of the Internal Auditing Staff** – The IIA Standards 1230 – Continuing Professional Development, states, “Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.”

The CAE has put in place a robust skills assessment and professional development framework for the IAD. It is well-structured and comprehensive and has led to detailed professional development plans

for each member of the team. There was highly positive feedback about this process from the IAD staff and each member indicated their enthusiasm for the intentional approach and personally-designed plans to enhance their skills, knowledge and competencies. We were also impressed with the CAE's vision for professional development extended past just traditional internal auditing skills, but includes leadership, management and effective communication skills training. The development of these soft skills will, in our opinion, help to further enhance the perception of the entire IAD team being "trusted advisors" in carrying out their responsibilities.

Opportunities for Enhancement—Internal Auditing Department

➤ **Update and Enhance Policies and Procedures to Address New Methodologies of Data Analytics**

With the incorporation of the use of data analytical tools and migrating away from some of the internal auditing processes that were identified as being not as valuable, the CAE has identified the need for a significant overhaul of the IAD's internal policies and procedures. The fact that this was identified by the CAE and the IAD team prior to our engagement demonstrates the IAD's adherence to the IIA Standards **1300 – Quality Assurance and Improvement Program (QAIP)** which states, "The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity."

It was evident from our review that the IAD team is actively undertaking this initiative and they are being thorough in their documentation of some of these brand-new processes. Our encouragement would be that they continue with these efforts and set target dates for completion as well as establishing a cadence of annually reviewing the documentation to update where necessary.

It should be noted that this should **not** be seen as a "deficiency," but rather an encouragement to continue on the path they are already on to document some of these best-practice methodologies. This will also be helpful in the onboarding and training of additional Internal Audit staff.

➤ **INTERNAL AUDITING DEPARTMENT'S RESPONSE:**

The Internal Auditing Department (IAD) appreciates the external review team's feedback and concurs with the assessment regarding the enhancement of our policies and procedures to address new methodologies of data analytics. We acknowledge the importance of this evolution in our approach, not only for the optimization of our audit processes but also for the overall quality assurance and improvement of our department's activities. We are committed to this undertaking, recognizing it as an opportunity to incorporate best-practice methodologies, further develop our data analytics capabilities, and continuously improve the effectiveness of our audits. Your encouragement reinforces our resolve to stay on this path, and we will strive to meet set target dates for completion while maintaining a cycle of annual reviews for necessary updates. We look forward to the benefits this will bring, including the enhanced onboarding and training of our Internal Audit staff.

We will address the first opportunity for improvement by:

1. The IAD will harness the power of AI to develop a comprehensive project plan for this overhaul, which will include specific target completion dates for each crucial task. This plan will be augmented by AI-driven project management tools that can facilitate progress tracking and enhance collaboration across the team.

2. This AI-enhanced plan will be communicated across the team, ensuring everyone is clear on their role in accomplishing these objectives.
3. The IAD will implement a recurring annual review of our policies and procedures, using AI to identify areas of potential improvement and maintain their relevance and effectiveness.
4. Thorough documentation of new processes will be a priority, facilitated by AI-powered document management systems. These systems will ensure that documents are easily created, updated, and accessible to all team members.
5. Lastly, the IAD is committed to leveraging AI technology to enhance our onboarding and training programs. We will develop AI-powered training modules that provide immersive and personalized learning experiences. These modules will focus on the latest Internal Audit Standards from both the IIA and GAGAS, ensuring our staff is well-equipped to carry out their tasks effectively. AI will allow us to update training materials in real-time, reflecting the most recent changes and best practices in the industry.

➤ **Augmentation of Internal Auditing Staff**

The IIA Standards, **1210 – Proficiency (b)** states, “The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.”

As part of the CAE’s **Quality Assurance and Improvement Program**, the CAE has identified areas in which the IAD does not have the existing knowledge, skills or competencies to adequately address the operational needs of the UHS. Our peer review assessment independently confirmed the CAE’s identified need for the IAD team to be enhanced to include:

- **IT Audit** – While there is one person on the IAD team, besides CAE Hurd, with IT Audit experience, one IT Auditor does not appear to be sufficient to address the needs of the organization. While there is a concerted effort to develop the IT audit skills of the IAD team, our recommendation would be to augment the IAD team with an additional IT Auditor(s) to ensure the IAD is able to address the increasing demands on information technology and cybersecurity throughout the UHS. This should include professionals with the proven experience in auditing cybersecurity, Cybersecurity Maturity Model Certification (CMMC), network security, identity access management (IAM), PCI data security, HIPAA/HITRUST, and other applicable areas of IT risk.
- **Healthcare Audit** – As the lead on this QAR, and being from a University with a College of Medicine, Faculty Practice Plan, multiple medical clinics, and a fully operational teaching hospital, I can speak to the importance of making sure the IAD has the specialized skills, knowledge and competencies to provide internal audit oversight over the growing healthcare components of UHS. Adding a resource that has the depth of experience in healthcare auditing and compliance will help to ensure the critical areas of risk are identified and monitored by the IAD. This should include professionals with proven experience in auditing and monitoring billing and coding, HIPAA Privacy Rules, revenue cycle, security of Protected Health Information (PHI), provider exclusions and sanctions monitoring [against Health and Human Services – Office of Inspector General (HHS-OIG) and General Services Administration System for Award Management (GSA-SAM.gov) which maintains the List of Excluded Individuals and Entities (LEIE)], and other applicable areas of healthcare risks.
- **Research Audit** – With UHS’s remarkable growth and move to R1 status, there is an opportunity to enhance the IAD with individuals who are steeped in their knowledge of Uniform Guidance, Pre- and Post-Award administration, effort certification, grants and contracts accounting, CMMC, and other areas germane to this specialized area.
- **Athletics Audit** – With UH joining the Power 5 conference, and the dramatically increased revenue anticipated, there will be an increased level of scrutiny that UH will receive. To ensure the IAD is able to serve as “trusted advisors” in this process and regularly monitor the activities in the Athletic program, it would be prudent for the UHS leadership to augment the resources of the IAD to ensure there are individuals with the applicable skills, knowledge and competencies to address these strategic areas.

While it is the plan of the CAE to expand the professional development of each existing IAD team member to be more aware of the nuances of these areas above, it is our opinion that, to effectively address the unique areas of inherent risk, augmenting the IAD team with individuals who have these

specialized skills and expertise would help serve the UHS well.

❖ **INTERNAL AUDITING DEPARTMENT'S RESPONSE:**

IT AUDIT:

The IAD recognizes the need to strengthen our proficiency in IT and Research Security auditing. To address this, we will recruit a seasoned auditor with extensive experience in these areas. However, we also acknowledge the wealth of knowledge and expertise available within the University of Houston's own community.

To capitalize on this internal resource, we plan to introduce a job rotation program involving employees from the Information Technology department. This initiative will provide cross-functional exposure, enhancing the collective skill set of the IAD team while fostering a deeper understanding of our operational intricacies.

Further, in an effort to nurture future talent, the IAD will establish an internship program in collaboration with our Information Technology teaching areas. We believe this integration will not only offer valuable real-world experience for our students but also infuse fresh perspectives into our audit processes.

We are confident that these strategies will enable us to meet the increasing demands of information technology and cybersecurity throughout the UHS, aligning our capabilities with the standards set by the IIA.

HEALTHCARE AUDIT

In light of the rapid growth of the University over the past two decades, the IAD acknowledges the increasing complexity and diversity of our healthcare operations. To ensure our audit activities adequately cover all relevant areas, we will embark on an extensive "inventory" exercise as part of our next annual audit plan. This undertaking will allow us to identify all areas handling Protected Health Information (PHI) and assess the adequacy of safeguards in place.

Recognizing the potential of AI to enhance our audit capabilities, we will explore various applications of this technology in healthcare auditing. This includes AI-driven risk identification and assessment, regulatory compliance monitoring, predictive analytics for proactive risk management, automation of certain auditing processes, and continuous real-time monitoring of potential issues.

Upon the completion of our inventory, the IAD will use the insights gained, including those from AI analyses, to develop a comprehensive audit plan tailored to the unique needs and risks associated with each identified area. We acknowledge that an effective approach may involve a combination of strategies.

These could involve recruiting additional healthcare auditors to our team, co-sourcing or outsourcing auditing services to leverage industry-specific expertise where needed, and making optimal use of existing resources, including AI tools, within the UHS. We also welcome suggestions for innovative approaches to strengthen our healthcare auditing capabilities.

The IAD is committed to providing robust audit oversight over the growing healthcare components of the UHS, ensuring that critical risk areas are identified, monitored, and managed effectively.

RESEARCH AUDIT

The IAD acknowledges the close interplay between IT Security auditing and Research auditing,

particularly with respect to NIST-171 and the CMMC. Consequently, we intend to leverage our strategies and resources in IT auditing to enhance our capabilities in Research auditing.

A key element of this approach will be upskilling our team on research auditing, utilizing the expertise of our IT auditor. To further bolster our efforts, we plan to employ AI, machine learning, and Robotic Process Automation (RPA) technologies.

These advanced tools will allow us to streamline the audit process, identify patterns and anomalies, predict potential risks, and ensure continuous real-time monitoring of research activities. With these strategies, we aim to provide robust oversight over UHS's growing research operations, ensuring the integrity, efficiency, and compliance of these critical activities.

NCAA AUDIT

The IAD recognizes the unique challenges and complexities associated with auditing athletics, particularly in relation to NCAA compliance. To this end, we intend to assign a dedicated auditor to oversee athletics auditing.

Recognizing the role of continuous learning in effectively addressing these challenges, we plan to invest in the upskilling of this auditor, focusing on NCAA compliance and rules. This training will provide the auditor with the necessary knowledge and skills to effectively oversee this critical area.

Moreover, to further enhance our auditing capabilities, we will explore the integration of AI, RPA, and machine learning technologies into our audit process. These advanced tools will provide a range of benefits including improved data analysis and pattern recognition, continuous compliance monitoring, predictive analytics for proactive risk management, and automation of routine auditing tasks.

We also see potential in leveraging AI for personalized training and education for athletes, coaches, and staff about NCAA rules and regulations. This could play a vital role in preventing unintentional violations and fostering a culture of compliance.

With this multi-faceted approach, the IAD aims to provide robust and effective oversight of athletics and NCAA compliance. We believe that by combining human expertise with advanced technology, we can ensure a high level of integrity, efficiency, and compliance in our athletics operations, in line with the IIA Standards.

The Internal Auditing Department (IAD) extends our sincere gratitude to the peer review team for their diligent and insightful assessment of our department. Your expert recommendations provide valuable guidance as we strive to enhance our auditing capabilities and better serve the University of Houston System (UHS). The IAD acknowledges the necessity of continually aligning our staff positions with the evolving risk landscape of the UHS. We are committed to regularly evaluating our team composition, skills, and competencies to ensure they are tailored to address the unique and diverse areas of inherent risk within our system effectively. This process will be integral to our ongoing efforts to uphold the IIA Standards, meet the operational needs of the UHS, and contribute to the overall integrity, efficiency, and resilience of our university system. We look forward to the continued growth and improvement of our department with these actions.

Appendices

Appendix I

Interviews Conducted:

Board of Regents

Mr. Jack Moore, Vice Chairman, UH System Board of Regents and Chair of the Audit and Compliance Committee

Senior UHS Management

Dr. Renu Khator, Chancellor/ President

Mr. Raymond Bartlett, Sr. VP for Administration and Finance

Dr. Robert Glenn, President, UHV

Dr. Loren Blanchard, President, UHD

Mr. Mark Denny, VP for Administration and Finance

Ms. Dona Cornell, Vice Chancellor for Legal Affairs and General Council

Ms. Karin Livingston, Associate Vice Chancellor and Associate VP for Finance

Ms. Susan Koch, Chief Compliance Officer

Dr. Dennis Fouty, Associate Vice Chancellor and Chief Information Officer

UHS Internal Auditing Department

Mr. Phillip Hurd, Chief Audit Executive

Ms. Brandee O'Neal, Director, Operational and Financial Audits

Mr. Tony Moreno, Senior Auditor

Ms. Kim Gerry, Senior Auditor

Ms. Connie Applebach, Auditor III

Mr. Eric Porter, Staff Auditor III

Ms. Emily Tran, Staff Auditor II

Mr. Elias McClellan, Staff Auditor II

Mr. Johnnie Bouy, Computer Support Analyst

Ms. Barbara White, Executive Administrative Assistant