

**University of Houston System
Annual Fraud Prevention and Awareness Report
FY 2008**

The Audit Committee Planner, Item 5.05, requires the Committee to evaluate management's identification of fraud risks, the implementation of antifraud prevention and detection measures, and the creation of the appropriate "tone at the top" by reviewing an annual report which summarizes the fraud risk analyses and related risk mitigation strategies. Listed below are the reports from each component.

University of Houston and UH System Administration

In October 2008, UH and UHSA departments completed their fourth annual online Department Fraud Risk Survey for FY08 to identify internal controls within their department that need to be strengthened in order to prevent and detect fraud. In addition, processing units and other offices that have a far reaching effect on campus operations (Purchasing, Payroll, Information Technology, etc.) completed an Institutional Fraud Risk Survey to identify procedures within their unit that may need improvement. The fraud risk surveys are completed annually to remind administrators and unit heads of their responsibilities, so that they remain vigilant in fraud prevention and detection.

For the second year in a row, all UH System employees will complete online Fraud Prevention and Awareness training and Code of Ethics training. UH Finance created the content for these courses, and radio personalities from KUHF provided the narration. Fraud Prevention and Awareness training describes various types of fraud, steps to prevent it from occurring, and how to report suspected fraud. Code of Ethics training covers various topics related to employee behavior, such as consulting and other outside employment, conflicts of interest, and lobbying and politics. Both training programs are designed to raise awareness of appropriate and inappropriate behavior for UH System employees.

Procurement cards (P-Cards) reduce the time and effort required to make small-dollar purchases and decrease the number of employee reimbursements. However, P-Card transactions must be carefully reviewed to ensure all transactions are appropriate and documented. All P-Card cardholders are required to complete online training prior to receiving a P-Card and annually thereafter, and administrators who review P-Card transactions are also required to complete annual training as well. Beginning September 4, 2008, P-Card applicants are also required to pass a criminal history investigation prior to receiving a P-Card.

Though department administrators are primarily responsible for reviewing the P-Card transactions within their department, Accounts Payable increased oversight of P-Card activity in the last quarter of FY08. Two students from the UH Bauer College of Business were hired to review P-Card transactions and report instances of non-compliance, such as inadequate documentation or other violations of university policy. After three instances of non-compliance involving unauthorized charges, the card is cancelled. Any non-compliance that appears to involve fraudulent activity is reported to Internal Audit for investigation.

Finally, UH Finance maintains a link to fraud and institutional compliance frequently asked questions on the Finance home page (www.uh.edu/finance), which includes instructions for reporting suspected fraud and non-compliance through the MySafeCampus telephone hotline or web link. Employees were also reminded about MySafeCampus in the *Employee Focus* and *Business Notes and News* electronic newsletters, which are distributed by email to UH faculty and staff.

University of Houston – Clear Lake

The University of Houston – Clear Lake expanded its fraud prevention and awareness activities with the formal establishment of the campus Institutional Compliance program on October 29, 2002. On September 29, 2004, to comply with Executive Order #RP36, a fraud prevention/awareness activity plan was submitted to the Governor’s Office. Our Vice President of Administration and Finance is designated as the campus contact person for fraud and prevention.

The university has made steady progress towards its fraud awareness goals. During new employee orientation, new hires are made aware of our institutional compliance program, My Safe Campus, and are shown the internal controls video. The campus has standards in place when hiring new employees, including background checks of security sensitive positions and verification of education credentials of faculty. UHS and campus Employee Standards of Conduct policies are distributed annually by email to every employee so that they are aware they are accountable to a code of conduct and high ethical standards. The University of Houston – Clear Lake collects on-line External Consulting and Professional Services Reporting, Related Party Disclosure, and the Expert Witness Forms. All employees have been informed that suspected fraudulent or non-compliant activities should be reported confidentially by use of the MySafeCampus hotline or MySafeCampus on-line reporting, or UHCL mailbox 373. New employees receive this information during New Employee Orientation.

The Director for General Accounting, Mr. David Kelling, CFE, CPA, for the University of Houston – Clear Lake, developed a fraud survey that was implemented in the FY 2007 and FY 2008. Mr. Kelling completed 40 CPE hours directly related to fraud in FY 2006 and FY 2007 to maintain his CFE. This assessment survey will be used as a tool to discover weaknesses and strengths of each business unit’s internal controls.

On-line training was well received in the past, and University of Houston – Clear Lake agreed at the July 25, 2006, meeting of the UHS Institutional Compliance Officers to implement the on-line training on Fraud Awareness being developed by UHS. The University of Houston – Clear Lake Compliance Committee completed an audit of Risk Assessments in FY 2007 on: Major property damage/destruction, FERPA, Travel risks, and TDLR and in FY 2009 will be evaluating:

- Expansion of Committee
- Optimization Forms Access
- Compliance section worksheets

In preparation for the possibility of a Sarbanes for State Agency regulation, the University of Houston – Clear Lake Compliance Committee Assistant attended Society of Corporate Compliance and Ethics Conference for Effective Compliance Systems in Higher Education.

The FY2007 Overall Fraud Risk Assessment report for the University of Houston-Clear Lake follows:

**Overall Fraud Risk Assessment
University Of Houston – Clear Lake
January 5, 2007**

Report Scope

Using the following fraud risk assessment rating system, 1 - Very Low (provides no apparent opportunity for fraudulent activity excluding the existence of collusion and requiring no action), 3 - Low (provides a low level of opportunity for fraudulent activity and requires no action except for weakness awareness), 5 – Moderate (provides a moderate opportunity for fraudulent activity and requires a design strategy for improvement), 7 - High (provides a high opportunity for fraudulent activity and requires design and implementation of strategy for improvement in the near future), and 9 - Very High (provides a very high opportunity for fraudulent activity and requires design and implementation of strategy for improvement immediately), recommended control measures existing or not existing were rated for University of Houston - Clear Lake ("the University") for fraud risk categories (Information, General Accounting, General Resources, Assets, Petty Cash and Cash Receipts, Inventory, Owned Vehicles, Accounts Payable and Travel, General Purchasing, Purchase of Services, Human Resources, Payroll, and Computing). A total of 93 recommended control measures were rated.

Fraud Risk Assessment Results

Fraud Risk Category	Number Control Measures Rated	Sum of Fraud Risk Assessment Ratings	Average Fraud Risk Assessment Rating
Information	4	4	1.0
General Accounting	6	8	1.3
General Resources	6	6	1.0
Assets	5	5	1.0
Petty Cash and Cash Receipts	9	9	1.0
Inventory	7	7	1.0
Owned Vehicles	5	5	1.0
Accounts Payable and Travel	6	6	1.0
General Purchasing	5	5	1.0
Purchase of Services	9	11	1.2
Human Resources	8	12	1.5
Payroll	8	8	1.0
Computing	15	19	1.3
Totals for the University	93	105	1.1

Overall Fraud Risk Assessment Rating

Based on the fraud risk assessment results, the University as of January 5, 2007, has an overall fraud risk assessment rating of "Very Low" to "Low."

Finding And Recommendation

Finding: From the fraud risk assessment evaluation of Computing, it was learned that regular reviews of internet browsing usage to detect excessive usage and reviews of websites visited are not being performed.

Recommendation: To strengthen the internal control over employee usage of the internet, regular reviews of internet browsing usage and websites visited should be performed to detect potential excessive usage and/or fraudulent or illegal usage.

Overall Fraud Risk Assessment University Of Houston – Clear Lake February 20, 2008

The FY2008 Overall Fraud Risk Assessment report for the University of Houston-Clear Lake follows:

Report Scope

Using the following fraud risk assessment rating system, 1 - Very Low (provides no apparent opportunity for fraudulent activity excluding the existence of collusion and requiring no action), 3 - Low (provides a low level of opportunity for fraudulent activity and requires no action except for weakness awareness), 5 – Moderate (provides a moderate opportunity for fraudulent activity and requires a design strategy for improvement), 7 - High (provides a high opportunity for fraudulent activity and requires design and implementation of strategy for improvement in the near future), and 9 - Very High (provides a very high opportunity for fraudulent activity and requires design and implementation of strategy for improvement immediately), recommended control measures existing or not existing were rated for University of Houston - Clear Lake ("the University") for fraud risk categories (Information, General Accounting, General Resources, Assets, Petty Cash and Cash Receipts, Inventory, Owned Vehicles, Accounts Payable and Travel, General Purchasing, Purchase of Services, Human Resources, Payroll, and Computing) and were confirmed with the University's Business Coordinators as either existing or not existing. A total of 91 recommended control measures were rated.

Fraud Risk Assessment Results

Fraud Risk Category	Number Control Measures Rated	Sum of Fraud Risk Assessment Ratings	Average Fraud Risk Assessment Rating
Information	4	4	1.00
General Accounting	6	6	1.00

General Resources	6	6	1.00
Assets	5	5	1.00
Petty Cash and Cash Receipts	9	9	1.00
Inventory	5	5	1.00
Owned Vehicles	5	5	1.00
Accounts Payable and Travel (A)	6	10	1.67
General Purchasing (A)	5	7	1.40
Purchase of Services	9	11	1.22
Human Resources	8	12	1.50
Payroll	8	8	1.00
Computing	15	19	1.27
Totals for the University	91	107	1.18

Note (A)

During Fiscal Year 2007, an Executive Director of Procurement/Payables was named to manage and supervise the Procurement, Accounts Payable, and Travel functions for the University which; on the surface, would appear to be a violation of the "separation of duties premise" of proper internal control that states that no person should be assigned or have duties whereby they can both perpetrate and conceal fraud. It was determined from a thorough review of the job duties currently assigned to the Executive Director of Procurement/Payables and the internal control procedures currently in place under the authority of the Executive Director of Procurement/Payables that there is not a violation of the "separation of duties premise."

Overall Fraud Risk Assessment Rating

Based on the fraud risk assessment results, the University as of February 20, 2008, has an overall fraud risk assessment rating of "Very Low" to "Low." Also, it was confirmed from the formal review and testing of the responses obtained from the University's Business Coordinators that adequate control procedures do exist to substantiate an overall fraud risk assessment rating of "Very Low" to "Low".

University of Houston-Downtown

The annual Fraud Risk Survey was conducted in June and July 2008. The survey was sent to the heads of 42 departments and 39 surveys were completed in the allotted timeframe. (93%) The missing responses were mainly due to changing department heads during the summer months. Next year the survey will be sent primarily to the Business Managers to ensure that they are involved in this process. The Fraud Survey is more a tool to remind the departments of all of those requirements that must be completed and processes that must be followed during normal operations in order to minimize the risk of fraud and to help detect and correct situations that may be conducive to fraudulent activity.

The policy statement for General Procurement/Procurement Card has been updated to address identified weaknesses and is pending final review/approval. All P-Card users are required to attend annual training and sign a statement certifying that they understood the training and that they will only use their P-Cards as appropriate per policy. Individuals not in compliance will have a hold placed on their P-Card until the requirement is met. UHD has a position in its Purchasing department that is dedicated exclusively to administration of the P-card program. This individual reviews all P-Card transactions as they are submitted and forwards information on questionable charges to the Director of Budget & Procurement and, if warranted, to the VP for Administration & Finance.

The “Risk Evaluation and Planning System Survey” was completed as requested by the State Office of Risk Management (SORM) prior to the on-site comprehensive review of our risk management program in March 2008. The SORM representatives made several recommendations on how UHD could improve and maintain the effectiveness of its program. UHD leadership has taken initial steps to dedicate more resources to ensure a viable comprehensive risk management program.

The re-engineered UHD website that will be launched in February will have a heightened MySafeCampus presence. A link to MySafeCampus will be available from numerous pages on the revamped site, including **Faculty and Staff, Employment Services and Operations, and Contract Administration**. Additionally, the Institutional Compliance Committee members have been asked to raise awareness of MySafeCampus during meetings and in training sessions. Information on the anonymous incident reporting system is also included in the New Employee Orientation training.

The risk management component of the UHD Compliance Program was completed during FY08. The process began with the identification of 170 risks. The Monitoring Plan, which covers 32 high impact risks, is considered best practice and was presented by the UHD Compliance Officer during the June 2008 Conference for Effective Compliance Systems in Higher Education. Subject Matter Experts report quarterly on the failures identified by the controls in place to prevent and detect incidents of non-compliance. The report includes the cause of the failure as well as actions taken to mitigate repetitive failures.

Training materials have been developed to improve the protection of sensitive and confidential data available through UHD’s information system.

University of Houston-Victoria

UH-Victoria continued its efforts in fraud prevention and fraud awareness during FY08 in various ways. Campus fraud prevention and awareness activities remain integrated within UHV’s Institutional Compliance Program.

As part of prevention and awareness measures, new staff continue to be introduced to fraud prevention and institutional compliance as part of the new employee orientation program. During the final part of the fraud awareness orientation, employees previewed a short film, “How Fraud Hurts You and Your Government Organization”, obtained from the State Auditor’s

Office, which emphasizes the personal consequences of employee involvement in fraudulent activities.

As a UHS component, UHV fully participated in the employee mandatory training program. Employees were automatically enrolled in online Fraud Prevention and Awareness Training and Code of Ethics training. Certain employees were also enrolled in the online Related Party Disclosure module.

During FY08, employees and students were routinely reminded, via the monthly Campus Incident Reports newsletter (http://www.uhv.edu/fin/safety/manual/Incident_Log/Incidlog.htm) to report suspected fraud or other non-compliance issues confidentially through MySafeCampus online or the 1-800 hotline number. For this reporting period, one incident of suspected fraud was reported anonymously through MySafeCampus. Upon investigation, the incident was found to involve fraud and resulted in the employee's dismissal for fraudulent purchases using a procurement card. To help prevent future incidents, control procedures were changed to require detailed receipts to be obtained for credit card purchases and uploaded into PeopleSoft; approving supervisors are now regularly reminded of their responsibility to review cardholder purchases and supporting receipts for appropriateness. Additionally, the ProCard Administrator now reviews the bank master credit card expense report in an effort to flag possible compliance issues.

Financial Aid employees, for the second year, were required to sign a Standards of Conduct and Conflict of Interest Certification. Each Financial Aid employee acknowledges a list of specific activities that are prohibited and acknowledges responsibility to report any real or apparent conflict of interest, violations of laws or regulations, fraud, theft or other financial aid irregularities promptly.

In conclusion, the FY08 Department Fraud Risk Survey will be completed by December 15th. The purpose of the survey is to increase supervisor awareness, discover weaknesses in operations and strengthen a department's internal controls. Unit heads will be required to sign and acknowledge their responsibility to comply with university policies and procedures and maintain effective fraud prevention controls within their department.