

State of Texas  
Federal Portion of the  
Statewide Single Audit Report  
for the Fiscal Year Ended  
August 31, 2015

Report No. 16-317





# Table of Contents

Independent Auditor's Report on the Schedule of Expenditures of Federal Awards.....	1
Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by OMB Circular A-133.....	2
Schedule of Expenditures of Federal Awards.....	20
Notes to Schedule of Expenditures of Federal Awards.....	173
Schedule of Findings and Questioned Costs	
Section 1: Summary of Auditors' Results.....	179
Section 2: Financial Statement Findings.....	183
Section 3a: Federal Award Findings and Questioned Costs – KPMG.....	185
Section 3b: Federal Award Findings and Questioned Costs – Other Auditors .....	273
Summary Schedule of Prior Audit Findings – KPMG.....	400
Summary Schedule of Prior Audit Findings – Other Auditors .....	476



***Basis for Qualified Opinions***

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

<u>Agency/University</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
General Land Office	CFDA 14.228 – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii	Subrecipient Monitoring Special Tests and Provisions – Wage Rate Requirements	2015-009
Health and Human Services Commission	Medicaid Cluster	Eligibility	2015-012
		Special Tests and Provisions – Provider Eligibility	2015-022
Health and Human Services Commission Department of Family and Protective Services	TANF Cluster	Procurement and Suspension and Debarment	2015-024
Department of State Health Services	CFDA 93.917 – HIV Care Formula Grants	Eligibility	2015-036

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

***Qualified Opinions***

In our opinion, based on our audit and the reports of the other auditor, except for the noncompliance described in the Basis for Qualified Opinions paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of the major programs identified in the Basis for Qualified Opinions paragraph for the year ended August 31, 2015.

***Unmodified Opinions on Each of the Other Major Federal Programs***

In our opinion, based on our audit and the reports of the other auditor, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended August 31, 2015.

***Other Matters***

The results of our auditing procedures and the reports of the other auditor disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items:

<u>Agency/University</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Department of Aging and Disability Services	Aging Cluster	Matching, Level of Effort, Earmarking Reporting	2015-001



<u>Agency/University</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Texas A&M University – Central Texas	Student Financial Assistance Cluster	Special Tests and Provisions – Verification	2015-110
Texas A&M University – Corpus Christi	Student Financial Assistance Cluster	Eligibility	2015-111
		Special Tests and Provisions – Verification	2015-112
Texas State University	Student Financial Assistance Cluster	Special Tests and Provisions – Disbursements To or On Behalf of Students	2015-113
		Special Tests and Provisions – Return of Title IV Funds	2015-114
		Special Tests and Provisions – Enrollment Reporting	2015-115
Texas Tech University	Student Financial Assistance Cluster	Eligibility	2015-116
		Special Tests and Provisions – Verification	2015-117
		Special Tests and Provisions – Return of Title IV Funds	2015-118
		Special Tests and Provisions – Enrollment Reporting	2015-119
University of Houston	Student Financial Assistance Cluster	Eligibility	2015-120
		Special Tests and Provisions – Institutional Eligibility	
		Special Tests and Provisions – Verification	2015-121
		Special Tests and Provisions – Disbursements To or On Behalf of Students	2015-122
		Special Tests and Provisions – Return of Title IV Funds	2015-123
		Special Tests and Provisions – Enrollment Reporting	2015-124
University of North Texas	Student Financial Assistance Cluster	Eligibility	2015-125
		Special Tests and Provisions – Institutional Eligibility	
		Special Tests and Provisions – Enrollment Reporting	2015-126



<u>Agency/University</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Health and Human Services Commission Department of Aging and Disability Services Department of Assistive and Rehabilitative Services Department of Family and Protective Services Department of State Health Services	CFDA 10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children CFDA 84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States CFDA 84.181 – Special Education – Grants for Infants and Families CFDA 93.268 – Immunization Cooperative Agreements CFDA 93.658 – Foster Care – Title IV-E CFDA 93.667 – Social Services Block Grant CFDA 93.917 – HIV Care Formula Grants CFDA 93.959 – Block Grants for Prevention and Treatment of Substance Abuse CFDA 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters) Special Education Cluster (IDEA) Aging Cluster TANF Cluster Medicaid Cluster	Subrecipient Monitoring	2015-025
Department of Public Safety	CFDA 97.067 – Homeland Security Grant Program	Allowable Costs/Cost Principles Subrecipient Monitoring Special Tests and Provisions – Subgrant Awards	2015-029
Department of State Health Services	CFDA 93.917 – HIV Care Formula Grants	Eligibility	2015-036

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We and the other auditor consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs and listed below to be significant deficiencies.

<u>Agency/University</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Department of Aging and Disability Services	Aging Cluster	Matching, Level of Effort, Earmarking Reporting	2015-001



<u>Agency/University</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Texas State University	Student Financial Assistance Cluster	Special Tests and Provisions – Return of Title IV Funds	2015-114
		Special Tests and Provisions – Enrollment Reporting	2015-115
Texas Tech University	Student Financial Assistance Cluster	Eligibility	2015-116
		Special Tests and Provisions – Verification	2015-117
		Special Tests and Provisions – Return of Title IV Funds	2015-118
		Special Tests and Provisions – Enrollment Reporting	2015-119
University of Houston	Student Financial Assistance Cluster	Eligibility	2015-120
		Special Tests and Provisions – Institutional Eligibility	
		Special Tests and Provisions – Verification	2015-121
		Special Tests and Provisions – Disbursements To or On Behalf of Students	2015-122
		Special Tests and Provisions – Return of Title IV Funds	2015-123
		Special Tests and Provisions – Enrollment Reporting	2015-124
University of North Texas	Student Financial Assistance Cluster	Eligibility	2015-125
		Special Tests and Provisions – Institutional Eligibility	
	Special Tests and Provisions – Enrollment Reporting	2015-126	
	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2015-127
University of Texas at Arlington	Student Financial Assistance Cluster	Eligibility	2015-128
		Special Tests and Provisions – Institutional Eligibility	
		Special Tests and Provisions – Verification	2015-129
		Special Tests and Provisions – Disbursements To or On Behalf of Students	2015-130

**Schedule of Findings and Questioned Costs**

Federal Portion of  
Statewide Single Audit Report

For the Year Ended August 31, 2015

## Federal Award Findings and Questioned Costs – Table of Contents

### Federal Award Findings – KPMG

Aging and Disability Services, Department of	185
Agriculture, Department of	187
Assistive and Rehabilitative Services, Department of	193
Family and Protective Services, Department of	196
General Land Office	198
Health and Human Services Commission	203
Housing and Community Affairs, Texas Department of	233
Public Safety, Department of	235
State Health Services, Department of	243
Texas Education Agency	251
Texas Higher Education Coordinating Board	256
Texas Workforce Commission	258
Transportation, Department of	260

### Federal Award Findings – Other Auditors

Sul Ross University	273
Texas A&M AgriLife Research	278
Texas A&M University	281
Texas A&M – Central Texas	288
Texas A&M University – Corpus Christi	295
Texas State University	300
Texas Tech University	305
University of Houston	312
University of North Texas	321
University of Texas at Arlington	327
University of Texas at Austin	334
University of Texas at Dallas	344
University of Texas at El Paso	356
University of Texas Health Science Center at Houston	362
University of Texas Medical Branch at Galveston	376
University of Texas at San Antonio	382
University of Texas Southwestern Medical Center	385



<b>University of Houston</b>
------------------------------

Reference No. 2015-120

**Eligibility****Special Tests and Provisions - Institutional Eligibility****Student Financial Assistance Cluster**

Award year – July 1, 2014 to June 30, 2015

Award numbers – CFDA 84.007, Federal Supplemental Educational Opportunity Grants, P007A144166; CFDA 84.033, Federal Work-Study Program, P033A144166; CFDA 84.038, Federal Perkins Loan – Federal Capital Contributions, Award Number Not Applicable; CFDA 84.063, Federal Pell Grant Program, P063P142333; CFDA 84.268, Federal Direct Student Loans, P268K152333; and CFDA 84.379, Teacher Education Assistance for College and Higher Education Grants, P379T152333

Type of finding – Significant Deficiency and Non-Compliance

Satisfactory Academic Progress

A student is eligible to receive Title IV, Higher Education Act (HEA) Program assistance if the student maintains satisfactory progress in his or her course of study according to the institution's published standards of satisfactory progress that satisfy the provisions of Title 34, Code of Federal Regulations (CFR), Section 668.16(e), and the provisions of Title 34, CFR, Section 668.34 (Title 34, CFR, Section 668.32(f)). An institution's satisfactory academic progress (SAP) policy should include a qualitative component that consists of grades or comparable factors that are measureable against a norm, and a quantitative component that consists of the pace at which students must progress through their program to ensure that they will graduate within the maximum time frame required to complete their education. The pace at which a student is progressing is calculated by dividing the total number of hours the student has successfully completed by the total number attempted (U.S. Department of Education, *2014-2015 Federal Student Aid Handbook*). For a graduate program, the maximum time frame is a period defined by the institution that is based on the length of the educational program (Title 34, CFR, Section 668.34(b)).

Questioned Cost: \$994,179

U.S. Department of Education

**The University of Houston (University) did not configure its student financial assistance system in accordance with its SAP policy.** The University's policy for calculating the maximum time frame for graduate and law students uses 150 percent of a student's academic program hours to determine the maximum time frame. However, the University's student financial assistance system, PeopleSoft, was not configured to limit the maximum time frame for some graduate and law programs to 150 percent of the academic program hours. Auditors identified at least 3 academic programs that were configured in PeopleSoft with maximum hours that exceeded 150 percent of the academic program hours.

Auditors did not identify students during testing who were ineligible for student financial assistance as a result of the issue discussed above. However, not determining maximum time frames correctly increases the risk that graduate and law students could receive financial assistance for which they are not eligible or be denied financial assistance for which they are eligible.

Teacher Education Assistance for College and Higher Education

During federal fiscal year 2015, there was a change in the sequester-required percentage reduction that applied to Teacher Education Assistance for College and Higher Education (TEACH) grants first disbursed during fiscal year 2015. The U.S. Office of Management and Budget calculated the sequester-required reduction percentage for the TEACH grant program to be 7.3 percent for a TEACH grant award with a first disbursement date on or after October 1, 2014, and before October 1, 2015 (*Dear Colleague Letter*, GEN-14-10).

**Based on a review of the entire population of federal student financial assistance recipients, the University awarded an incorrect amount for TEACH grant assistance to one student.** The University awarded that student \$256 more in TEACH grant assistance than allowed by the sequester. That error occurred because the University manually entered the incorrect amount into PeopleSoft. In addition, because that amount was manually entered, PeopleSoft did not adjust that amount for changes in the sequestration percentage. After auditors brought the error to

the University's attention, it adjusted and corrected the TEACH grant award to that student to reflect the correct amount required by the sequester; therefore, there were no questioned costs.

#### Federal Pell Grant

When awarding Federal Pell Grant assistance to students, for each payment period, an institution may award a Federal Pell Grant to an eligible student only after it determines that the student is enrolled in an eligible program as an undergraduate student (Title 34, CFR, Section 690.75(a)). 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(a)). Those schedules provide the maximum annual amount a student would receive for a full academic year for a given enrollment status, estimated family contribution (EFC), and cost of attendance (COA). There are separate schedules for three-quarter-time, half-time, and less-than-half-time students (U.S. Department of Education, *2014-2015 Federal Student Aid Handbook*, and Title 34, CFR, Section 690.63(b)).

**Based on a review of the entire population of federal student financial assistance, the University incorrectly calculated and disbursed Federal Pell Grant assistance to 237 students.** That occurred because of an error in the University's disbursement process for the Summer term. The University did not configure PeopleSoft to consider the amount of Federal Pell Grant assistance students received during the Fall and Spring terms when determining the amount of the Summer disbursement. As a result, some students received more Federal Pell Grant assistance than they were eligible to receive and other students received less Federal Pell Grant assistance than they were eligible to receive.

After auditors brought the errors to the University's attention, it corrected the process in PeopleSoft and recalculated the amount of Federal Pell Grant assistance that students were eligible to receive for the Summer term. The University subsequently adjusted students' award amounts and either disbursed additional funds or returned funds to the U.S. Department of Education. Therefore, there were no questioned costs.

#### Eligibility and Certification Approval Report

Each institution's most recent *Eligibility and Certification Approval Report* (ECAR) lists the institution's main campus and any additional approved locations. For any other locations at which an institution offers 50 percent or more of an eligible program during the audit period, the institution must either submit an application for approval of that location or notify the U.S. Department of Education of that location (Title 34, CFR, Sections 600.20(c) and 600.21(a)(3)). An institution may not disburse Title IV, HEA Program assistance to students at that location before it reports to the U.S. Department of Education about that location (Title 34, CFR, Section 600.21(d)). Additionally, an institution must report to the U.S. Department of Education, no later than 10 days after the change occurs, any change in the name or address of any branch or previously reported location and the closure of a branch or previously reported location (Title 34, CFR, Section 600.21(a)).

**The University's most recent ECAR was not accurate and did not include all additional locations.** Specifically:

- The University reported four locations incorrectly on its ECAR. The University did not report the correct name or address for three of those locations. The University closed the fourth location in 2004 but did not remove that location from its ECAR.
- The University has additional locations in Houston, Peru, the United Arab Emirates, Ukraine, and the People's Republic of China that offer 50 percent or more of an eligible program. However, the University did not include those locations on its most recent ECAR. In addition, the University did not notify the U.S. Department of Education about those locations. The University did not disburse any federal financial assistance to students who attended the unreported international locations during the 2014-2015 award year. However, it disbursed a total of \$994,179 in federal student financial assistance to 203 students at the unreported Houston locations during the 2014-2015 award year. Of those disbursements:
  - \$549,869 was associated with CFDA 84.268, Federal Direct Student Loans, award number P268K152333.
  - \$425,679 was associated with CFDA 84.063, Federal Pell Grant Program, award number P063P142333.
  - \$14,000 was associated with CFDA 84.007, Federal Supplemental Educational Opportunity Grants, award number P007A144166.
  - \$4,631 was associated with CFDA 84.033, Federal Work-Study Program, award number P033A144166.

All of the above amounts were considered questioned costs.

Those errors occurred because the University did not adequately review its ECAR to ensure that it reported all locations at which it offers more than 50 percent of an eligible program. Not updating the ECAR and not notifying the U.S. Department of Education about additional locations could result in students receiving financial assistance for ineligible programs.

Recommendations:

The University should:

- Configure PeopleSoft to align with its SAP policy by defining a maximum time frame based on 150 percent of the educational program for graduate and law students.
- Award students the correct amount of TEACH grants according to annual limits.
- Award students the correct amount of Federal Pell Grant assistance for an award year.
- Update its ECAR as required and ensure that it does not disburse financial assistance to students at locations that are not on its ECAR.

Views of Responsible Officials and Corrective Action Plan:

Satisfactory Academic Progress

*We have modified our policies and procedures to include an annual verification of maximum hours with leadership in each graduate program. We will use this information to configure PeopleSoft to align with our SAP policy of maximum time frame based on 150 percent of the educational program for graduate and law students.*

*Implementation Date: November 2015*

*Responsible Persons: Scott Moore and Anushah Ahmed*

Teacher Education Assistance for College and Higher Education

*We have amended our policies and procedures to include a biennial review of TEACH Grant award amounts at the end of each payment period. This will help ensure that students are awarded the correct amount of TEACH Grant.*

*Implementation Date: November 2015*

*Responsible Persons: Scott Moore and Candida Dubose*

Federal Pell Grant

*To help ensure all students are awarded the correct amount of Federal Pell Grant assistance, we will modify the query used to verify Pell Grant maximum amounts for summer awards and disbursements to include data elements currently missing.*

*Implementation Date: June 2016*

*Responsible Persons: Scott Moore, Lety Gallegos and Candida Dubose*

Eligibility and Certification Approval Report

We have updated the ECAR to accurately reflect all of our locations. To help ensure continued accuracy of reported locations and that financial assistance is not disbursed to students at locations not on the ECAR, we have modified our policies and procedures to include a review 60 days prior to the start of each payment period.

For international locations, we have created a query which will run monthly to ensure that no students at international locations are eligible for federal aid.

Implementation Date: November 2015

Responsible Persons: Chris Stanich and Scott Moore

Reference No. 2015-121

**Special Tests and Provisions – Verification**

(Prior Audit Issue 2014-139)

**Student Financial Assistance Cluster**

Award year – July 1, 2014 to June 30, 2015

Award numbers – CFDA 84.007, Federal Supplemental Educational Opportunity Grants, P007A144166; CFDA 84.033, Federal Work-Study Program, P033A144166; CFDA 84.038, Federal Perkins Loan – Federal Capital Contributions, Award Number Not Applicable; CFDA 84.063, Federal Pell Grant Program, P063P142333; CFDA 84.268, Federal Direct Student Loans, P268K152333; and CFDA 84.379, Teacher Education Assistance for College and Higher Education Grants, P379T152333

Type of finding – Significant Deficiency and Non-Compliance

For each applicant whose Free Application for Federal Student Aid (FAFSA) is selected for verification by the Secretary of the U.S. Department of Education, an institution must verify all of the applicable items, which include household size, number of household members who are in college, adjusted gross income, U.S. income taxes paid, child support paid, food stamps, education credits, individual retirement account deductions, other untaxed income, high school completion status, and identity and statement of educational purpose (Title 34, Code of Federal Regulations (CFR), Sections 668.54 and 668.56, and *Federal Register*, Volume 78, Number 114).

Questioned Cost:	\$0
U.S. Department of Education	

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 from the applicant’s FAFSA, the institution must submit a correction to the U.S. Department of Education and adjust the applicant’s financial aid package on the basis of the expected family contribution (EFC) on the corrected Institutional Student Information Record (ISIR). For the Federal Pell Grant Program, if the applicant’s FAFSA information changes as a result of verification, an institution must recalculate the applicant’s Federal Pell Grant on the basis of the EFC on the corrected ISIR and disburse any additional funds under that award (Title 34, CFR, Section 668.59).

**For 4 (6 percent) of 62 students tested, the University of Houston (University) did not accurately verify some of the required items on the FAFSA; therefore, it did not subsequently update its records and request updated ISIRs as required.** For those four students, the University did not accurately verify one of the following items: education credits, U.S. income taxes paid, and untaxed pension amounts. Those errors occurred because of manual errors the University made during its verification process and because the University does not have an adequate control to monitor verification.

When auditors brought the errors to the University’s attention, it made corrections to those four students’ ISIRs. Specifically:

- For two students, the original EFC was overstated. One of those students was eligible for an additional \$375 in Federal Pell Grant funds, and the University subsequently disbursed additional Federal Pell Grant funds. There was no change in financial assistance for the other student.

- For two students, the original EFC was understated, which resulted in \$600 in overawards of Federal Pell Grant funds. The University subsequently adjusted those students' awards; therefore, there were no questioned costs.

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

Recommendations:

The University should:

- Accurately verify all required FAFSA information for students selected for verification and request updated ISIRs when required.
- Establish and implement an effective monitoring process for verification.

Views of Responsible Officials and Corrective Action Plan:

*We have changed our process to verify all required FAFSA information for students selected for verification by implementing a second level review for each student with a completed file. This review process will check for accuracy before marking a file "complete" and we will request updated ISIRs when required.*

*Implementation Date:      October 2015*

*Responsible Persons:      Scott Moore and Candida Dubose*

Reference No. 2015-122

**Special Tests and Provisions - Disbursements To or On Behalf of Students**

**Student Financial Assistance Cluster**

**Award year – July 1, 2014 to June 30, 2015**

**Award numbers – CFDA 84.268, Federal Direct Student Loans, P268K152333; CFDA 84.379, Teacher Education Assistance for College and Higher Education Grants, P379T152333; and CFDA 84.038, Federal Perkins Loan - Federal Capital Contributions, Award Number Not Applicable**

**Type of finding – Significant Deficiency and Non-Compliance**

If an institution credits a student's account at the institution with Direct Loan, Federal Perkins Loan, or Teacher Education Assistance for College and Higher Education (TEACH) Grants Program funds, no earlier than 30 days before and no later than 30 days after crediting the student's account, the institution must notify the student or parent of (1) the date and amount of the disbursement; (2) the student's right or parent's right to cancel all or a portion of that loan, loan disbursement, TEACH grant, or TEACH grant disbursement; and (3) the procedures and the time by which the student or parent must notify the institution that he or she wishes to cancel the loan, loan disbursement, TEACH grant, or TEACH grant disbursement (Title 34, Code of Federal Regulations, Section 668.165).

Questioned Cost:	\$0
U.S. Department of Education	

**For 15 (41 percent) of 37 disbursements tested that required a disbursement notification letter, the University of Houston (University) did not send disbursement notification letters within the required time frames.** Those errors occurred for disbursements made late in the Fall term and the Spring term because of errors in the batch processes the University used to (1) identify students to whom it was required to send disbursement notification letters and (2) send those disbursement notification letters. Although auditors did not identify compliance errors related to Perkins Loan or TEACH grant recipients, the University used those same batch processes to identify and send disbursement notification letters to the recipients of those types of financial assistance.

The University identified and corrected the errors in its batch processes in March and sent the required disbursement notification letters at that time to students who received disbursements late in the Fall term and in the Spring term. However, not receiving disbursement notification letters in a timely manner could impair students' and parents' ability to cancel their loans.

Recommendation:

The University should strengthen controls over its batch processes to ensure that it sends disbursement notification letters within 30 days before or after crediting a student's account with loans or a TEACH grant.

Views of Responsible Officials and Corrective Action Plan:

*We have strengthened control of our batch processes by generating an email to appropriate staff members when a batch processing instance fails or errors. This will help ensure that disbursement notification letters are sent within 30 days before or after crediting a student's account with loans or a TEACH grant.*

Implementation Date: March 2015

Responsible Persons: Lety Gallegos and Scott Moore

Reference No. 2015-123

**Special Tests and Provisions – Return of Title IV Funds**

**Student Financial Assistance Cluster**

Award year – July 1, 2014 to June 30, 2015

Award numbers – CFDA 84.007, Federal Supplemental Educational Opportunity Grants, P007A144166; CFDA 84.038, Federal Perkins Loan – Federal Capital Contributions, Award Number Not Applicable; CFDA 84.063, Federal Pell Grant Program, P063P142333; CFDA 84.268, Federal Direct Student Loans, P268K152333; and CFDA 84.379, Teacher Education Assistance for College and Higher Education Grants, P379T152333

**Type of finding – Significant Deficiency and Non-Compliance**

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient 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 assistance earned by the student is less than the amount that was disbursed to the student or on his or 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)).

Questioned Cost:	\$0
U.S. Department of Education	

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 for the payment period or period of enrollment as of the student's withdrawal date. A student earns 100 percent if his or her withdrawal date is after completion of 60 percent of the payment period or period of enrollment (Title 34, CFR, Section 668.22(e)). The institution must return the lesser of the total amount of unearned Title IV grant or loan 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 that had not been earned by the student (Title 34, CFR, Section 668.22(g)).

The total number of calendar days in a payment period or period of enrollment includes all days within the period that the student was scheduled to complete, except that scheduled breaks of at least five consecutive days are excluded



from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period (Title 34, CFR, Section 668.22(f)(2)(i)).

**The University of Houston (University) did not correctly determine the 60 percent completion point for the Spring term.** Specifically, for 12 (20 percent) of 61 students tested, the University did not correctly calculate the amount of Title IV funds earned or the amount of funds to be returned because of an incorrect determination of the number of days in the payment period. The University incorrectly used 9 days for its spring break period when it determined the length of enrollment for the Spring term, instead of 8 days. As a result, the University incorrectly determined the 60 percent completion point for return calculations and for determining whether students had sufficiently completed the payment period or period of enrollment. The error in the determination of the number of days in the enrollment period impacted the percent completion used in the return calculation by less than half a percent. As a result:

- For eight of those students, the University returned an incorrect amount of Title IV funds.
- Four of those students had a withdrawal date at the 60 percent completion point and had sufficiently completed the payment period and would not be required to return Title IV funds; however, the University calculated and returned Title IV funds for those students.

Auditors identified an additional 9 students who withdrew at the 60 percent completion point who had sufficiently completed the payment period and would not have required a return of Title IV funds.

When auditors brought the errors to University's attention, it performed the return calculation again for the 12 students discussed above and adjusted the amount of funds returned accordingly; therefore, there were no questioned costs.

Auditors determined that the error discussed above affected a total of 91 students in the Spring term. Depending on the withdrawal date, those students may have earned more of their funds than the University determined, or they may have been required to return more funds to the U.S. Department of Education than the University determined.

Not accurately determining the date of scheduled breaks for terms when calculating return amounts increases the risk that the University will not return the correct amount of Title IV assistance to the U.S. Department of Education or may return funds that students have earned.

Recommendation:

The University should accurately determine the number of days in scheduled breaks and calculate returns of Title IV funds correctly based on the period of enrollment excluding scheduled breaks.

Views of Responsible Officials and Corrective Action Plan:

*Beginning fall 2015 we implemented the delivered PeopleSoft Return to Title IV Module, which provides the functionality of basing the calendar directly on the Academic Calendar for the University. This will help ensure accurate determination of the number of days in the scheduled breaks, and calculate returns of Title IV correctly based on the period of enrollment excluding scheduled breaks.*

*Implementation Date: September 2015*

*Responsible Persons: Scott Moore and Candida Dubose*

Reference No. 2015-124

**Special Tests and Provisions – Enrollment Reporting**

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

**Student Financial Assistance Cluster**

**Award year – July 1, 2014 to June 30, 2015**

**Award numbers – CFDA 84.038, Federal Perkins Loan – Federal Capital Contributions, Award Number Not Applicable; CFDA 84.063, Federal Pell Grant Program, P063P142333; and CFDA 84.268, Federal Direct Student Loans, P268K152333**

**Type of finding – Significant Deficiency and Non-Compliance**

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 Family Education Loan (FFEL), Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who (1) enrolled at that institution but has ceased to be enrolled on at least a half-time basis; (2) has been accepted for enrollment at that institution but failed to enroll on at least a half-time basis for the period for which the loan was intended; or (3) has changed his or her permanent address (Title 34, Code of Federal Regulations (CFR), Sections 685.309(b) and 682.610(c)). Effective June 2012, enrollment reporting roster files must also include Federal Pell Grant-only and Federal Perkins Loans recipients (Title 34, CFR, Section 690.83(b)(2), and *Dear Colleague Letter*, March 30, 2012 (GEN-12-06)).

Questioned Cost:	\$0
U.S. Department of Education	

When a student completes one academic program and then enrolls in another academic program at the same institution, the institution must report two separate enrollment transactions: one showing the completion of the first program and its effective date and credential level, and the other showing the enrollment in the second program and its effective date (*Dear Colleague Letter*, March 20, 2012 (GEN-12-06)).

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

**For 6 (10 percent) of 60 students tested who had a status change, the University did not report status changes or effective dates to NSLDS accurately. Specifically:**

- For five students with status changes, the University did not report the correct effective date to NSLDS. In addition, for one of those students, the University reported an incorrect enrollment status to NSLDS. Those errors occurred because of changes the University made to the query it used to identify students with changes in enrollment levels. The query did not always return the correct status type or effective date for a status change.
- The University did not accurately report to NSLDS one student who graduated in the Fall term and subsequently enrolled in a new program in the Spring term. The University reported that student’s graduated and enrollment status to NSC; however, NSC did not report the graduated status correctly to NSLDS. The University does not have a control to ensure that the information it reports to NSC is subsequently submitted to NSLDS.

Not reporting changes and effective dates accurately and completely could affect the determinations that guarantors, lenders, and servicers of student loans make related to in-school status, deferments, grace periods, and repayment schedules, as well as the federal government’s payment of interest subsidies.

Recommendation:

The University should accurately report all status changes and effective dates to NSLDS.

*Views of Responsible Officials and Corrective Action Plan:*

*To accurately report all status changes and effective dates to NSLDS, we have adjusted the query used to pull students with changes to their enrollment schedule to help ensure that enrollment reporting is accurate within the 30 day federal window.*

*We determined that the reporting error of the student who graduated and re-enrolled was due to timing. The timing of the reporting schedule has been altered to correct this error.*

*Implementation Date: September 2015*

*Responsible Person: Debbie Henry*

<b>University of Houston</b>
------------------------------

Reference No. 2014-139

**Special Tests and Provisions – Verification****Student Financial Assistance Cluster**

Award year – July 1, 2013 to June 30, 2014

Award numbers – CFDA 84.007, Federal Supplemental Educational Opportunity Grants, P007A134166; CFDA 84.033, Federal Work-Study Program, P033A134166; CFDA 84.063, Federal Pell Grant Program, P063P132333; CFDA 84.268, Federal Direct Student Loans, P268K142333; CFDA 84.038, Federal Perkins Loans – Federal Capital Contributions, Award Number Not Applicable; and CFDA 84.379, Teacher Education Assistance for College and Higher Education Grants, P379T142333

**Type of finding – Non-Compliance**

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, child support paid, food stamps, education credits, individual retirement account deductions, other untaxed income, high school completion, and identity and statement of educational purpose (Title 34, Code of Federal Regulations (CFR), Section 668.54 and 668.56; and *Federal Register* Volume 77, Number 134). When the verification of a student's eligibility results in any change to a non-dollar item or a change to a single dollar item of \$25 from the student's original FAFSA, the institution must submit a correction to the U.S. Department of Education and adjust the applicant's financial aid package on the basis of the expected family contribution (EFC) on the corrected Institutional Student Information Record (ISIR). For the Federal Pell Grant Program, if an applicant's FAFSA information changes as a result of verification, an institution must recalculate the applicant's Federal Pell Grant on the basis of the EFC on the corrected ISIR and disburse any additional funds under that award. (Title 34, CFR, Section 668.59).

Initial Year Written:	2014
Status:	Partially Implemented
U.S. Department of Education	

**For 2 (5 percent) of 40 students tested, the University of Houston (University) did not accurately verify all required items on the FAFSA; therefore, it did not subsequently update its records and request updated ISIRs as required.** For those students, the University did not accurately verify one or more of the following verification items: the number of household members in college, education credits, and untaxed pension amounts. As a result of those errors, the University understated the EFC for one student by \$5,049 and overstated the EFC for one student by \$25. Those errors occurred because of manual errors the University made in verification.

When auditors brought those errors to the University's attention, it corrected the errors and requested updated ISIRs for those students. Although there was a change in the students' EFC, that did not affect the students' aid amounts. Therefore, there were no questioned costs.

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

Corrective Action:

This finding was reissued as current year reference number 2015-121.

Reference No. 2014-140

**Special Tests and Provisions – Enrollment Reporting**

(Prior Audit Issues 2013-165, 13-147, 12-153, 11-154, 10-98, 09-87, 08-74, and 07-58)

**Student Financial Assistance Cluster**

**Award year – July 1, 2013 to June 30, 2014**

**Award numbers – CFDA 84.007, Federal Supplemental Educational Opportunity Grants, P007A134166; CFDA 84.033, Federal Work-Study Program, P033A134166; CFDA 84.038, Federal Perkins Loan Program – Federal Capital Contributions, Award Number Not Applicable; CFDA 84.063, Federal Pell Grant Program, P063P132333; CFDA 84.268, Federal Direct Student Loans, P268K142333; and CFDA 84.379, Teacher Education Assistance for College and Higher Education Grants, P379T142333**

**Type of finding – Significant Deficiency and Non-Compliance**

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

Initial Year Written:	2006
Status:	Partially Implemented
U.S. Department of Education	

When a student completes one academic program and then enrolls in another academic program at the same school, the school must report two separate enrollment transactions: one showing the completion of the first program and its effective date and credential level, and the other showing the enrollment in the second program and its effective date (*Dear Colleague Letter*, March 20, 2012, GEN-12-06).

The University of Houston (University) runs a query to identify students who have graduated during a specified term. Degree verification transmissions are scheduled weekly until the colleges have made all degree decisions for the relevant term and the Office of Registration and Academic Records has processed those decisions. The colleges have up to 40 calendar days from the close of the relevant term to submit their graduation decisions for processing. Degree decisions not completed by that due date are reported manually (not by batch) directly to the National Student Clearinghouse (NSC), which reports student status changes to the National Student Loan Data System (NSLDS) on behalf of the University. Although the University uses the services of NSC, it is still ultimately the University’s responsibility to submit timely, accurate, and complete responses to enrollment reporting roster files and to maintain proper documentation (*NSLDS Enrollment Reporting Guide*, Chapter 1).

**For 1 (3 percent) of 40 student status changes tested, the University did not report the enrollment change to NSLDS accurately.** The student graduated at the end of the Fall 2013 term, and the University reported the status change to NSC. However, NSC did not report the status change to NSLDS; instead, it reported a full-time status for that student for the Fall 2013 term. While the student enrolled in the Spring 2014 term and was reported with a half-time status, NSC should have reported the completion of the student’s program in the Fall 2013 term to NSLDS as a separate enrollment transaction.

Not reporting student status changes accurately and within the required time frame could affect determinations that guarantors, lenders, and servicers of student loans make related to in-school status, deferments, grace periods, repayment schedules, and the federal government’s payment of interest subsidies.

Corrective Action:

This finding was reissued as current year reference number 2015-124.

Reference No. 2014-141

**Activities Allowed or Unallowed  
Allowable Costs/Cost Principles**

**Research and Development Cluster**

**Research and Development Cluster – ARRA**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Significant Deficiency and Non-Compliance**

Payroll Expenditures

The method of payroll distribution used by entities that receive federal awards must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and facilities and administrative cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Additionally, for professorial and professional staff, the reports will be prepared each academic term, but no less frequently than every six months (Title 2, Code of Federal Regulations (CFR), Section 220, Appendix A (J)(10)).

Initial Year Written: 2014  
Status: Partially implemented

National Aeronautics and Space Administration  
National Endowment for the Humanities  
National Science Foundation  
U.S. Department of Defense  
U.S. Department of Education  
U.S. Department of Energy  
U.S. Department of Health and Human Services

According to the University of Houston’s (University) effort reporting policy, employees must certify their time and effort reports in accordance with a quarterly schedule published in the policy. **For 29 (69 percent) of 42 payroll transactions tested, the University did not certify time and effort reports within the required time period.** Specifically:

- For 19 payroll transactions, the due date for time and effort certifications had passed and the University had not completed those certifications. All 19 of these transactions occurred within the third and fourth quarters of the certification year. According to the University, the third and fourth quarter time and effort certifications were delayed because of the implementation of a new timekeeping system.
- For 6 payroll transactions, the University completed time and effort certifications, but the principal investigator signed those certifications between 107 and 228 days after the certification due date in the University’s policy. Those transactions occurred within the first and second quarters of the certification year.
- For 3 payroll transactions that occurred in the first and second quarters of the certification year, the time and effort certification was signed but not dated; therefore, auditors could not determine whether the certifications were completed prior to the due date in the University’s policy.
- For 1 payroll transaction, the time and effort certification for the third quarter was not signed by the principal investigator.

A prolonged elapsed time between activity and certification of the activity can decrease the accuracy of reporting and increase the time between payroll distribution and any required adjustments to that distribution.

Payroll Salary Restrictions

Every year since 1990, the U.S. Congress has legislatively mandated a provision limiting the direct salary that an individual may receive under a National Institutes of Health (NIH) grant. The amount of direct salary to executive level II of the federal executive pay scale was restricted to \$179,700 from December 23, 2011, through January 11, 2014. The executive level II salary restriction increased from \$179,700 to \$181,500 effective January 12, 2014 (NIH Notice Number NOT-OD-14-052).

The University’s research effort reporting policy states that, in instances in which federal regulations do not allow for salaries in excess of statutory or regulatory salary caps, the amount of a faculty member’s salary to be charged to a grant is determined based on the percentage of effort to be devoted to the grant.



**The University does not have effective controls to help ensure that it limits the salaries charged to NIH grants.** The University performs a quarterly analysis to determine whether employees on NIH grants charge less than the monthly salary cap amount to the grant. However, the University does not consider the percentage of effort that each employee spends on a grant when it performs that analysis. Auditors tested the first and second quarters of fiscal year 2014 and identified salary costs for five employees totaling \$9,875 that were overcharged to six NIH awards as a result of that error. Auditors were not able to test the third and fourth quarters of fiscal year 2014 because of the time and effort delays discussed above that resulted from the University’s implementation of a new timekeeping system.

Direct Costs (Non-payroll)

Allowable costs charged to federal programs must (1) be reasonable; (2) be allocable to sponsored agreements; (3) be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (4) conform to any limitations or exclusions set forth in cost principles or in the sponsored agreement as to types or amounts of cost items (Title 2, CFR, Section 220, Appendix A, C.2).

**Four (5 percent) of 74 direct cost transactions tested at the University were unallowable.** Three of those transactions were for meals and alcohol that were charged to federal awards that did not allow or specifically disallowed those types of expenditures; the fourth transaction was for an unallowable late payment fee. The University corrected all of those errors; therefore, there were no questioned costs.

The following awards were affected by the payroll expenditures issues discussed above:

CFDA No.	CFDA Title	Award Number	Award Year
12.300	Basic and Applied Scientific Research	N00014-13-1-0543	May 1, 2013 to April 30, 2016
43.001	Science	T72314	May 1, 2013 to September 30, 2014
47.041	Engineering Grants	ECCS-1102195	September 1, 2011 to August 31, 2015
47.041	Engineering Grants	ECCS-0926006	September 1, 2009 to August 31, 2014
47.049	Mathematical and Physical Sciences	CHE-0956127	October 1, 2010 to September 30, 2015
47.049	Mathematical and Physical Sciences	CHE-1213646	August 15, 2012 to July 31, 2015
47.070	Computer and Information Science and Engineering	IIS-1111507	January 1, 2014 to December 31, 2014
47.074	Biological Sciences	DEB-1253650	April 1, 2013 to March 31, 2018
47.080	Office of Cyberinfrastructure	OCI-1148052	September 1, 2013 to May 31, 2015
81.000	Department of Energy	DE-EE0005806	September 1, 2012 to February 28, 2015
81.049	Office of Science Financial Assistance Program	DE-SC0006771	September 15, 2011 to September 14, 2015
81.049	Office of Science Financial Assistance Program	DE-FG02-07ER41521	November 15, 2013 to November 14, 2014

UNIVERSITY OF HOUSTON

---

CFDA No.	CFDA Title	Award Number	Award Year
81.049	Office of Science Financial Assistance Program	DE-SC0008073	July 1, 2012 to June 30, 2015
81.105	National Industrial Competitiveness through Energy, Environment, and Economics	1452262	May 6, 2014 to September 1, 2014
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	DE-OE0000485	July 1, 2010 to December 30, 2014
81.135	Advanced Research Projects Agency - Energy	DE-AR0000196	January 1, 2012 to June 30, 2015
84.305	Education Research, Development and Dissemination	R305A090555	July 1, 2009 to June 30, 2014
84.305	Education Research, Development and Dissemination	UTA10-000725	July 1, 2010 to June 30, 2015
84.324	Research in Special Education	R324C08006	July 1, 2008 to June 30, 2014
93.121	Oral Diseases and Disorders Research	3R01DE022676-02S1	September 1, 2012 to August 31, 2014
93.173	Research Related to Deafness and Communication Disorders	1R03DC012640-02	August 1, 2013 to July 31, 2016
93.242	Mental Health Research Grants	1R01MH097726-01A1	September 13, 2013 to July 31, 2014
93.273	Alcohol Research Programs	1R21AA020572-02	September 5, 2011 to June 30, 2014
93.310	Trans-NIH Research Support	5R01CA174385-02	September 19, 2012 to June 30, 2016
93.398	Cancer Research Manpower	1K01CA151785-01	February 1, 2011 to August 31, 2015
93.535	Affordable Care Act (ACA) Childhood Obesity Research Demonstration	5U18DP003350-03	September 29, 2011 to September 29, 2014
93.865	Child Health and Human Development Extramural Research	4R00HD061689-03	September 1, 2013 to August 31, 2014
93.866	Aging Research	5R01AG039836-04	September 15, 2011 to May 31, 2015
93.867	Vision Research	5P30EY007551-27	July 1, 2014 to June 30, 2015

**UNIVERSITY OF HOUSTON**

---

The following awards were affected by the payroll salary restriction issues discussed above:

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>	<b>Questioned Costs</b>
93.103	Food and Drug Administration Research	FDAHHSF2232009	August 1, 2013 to December 31, 2013	\$ 64
93.172	Human Genome Research	5U01HG006507-02	December 1, 2012 to November 30, 2013	417
93.279	Drug Abuse and Addiction Research Programs	R21DA029811	September 1, 2011 to February 28, 2014	5,890
93.867	Vision Research	5R01EY008128-24	February 1, 2010 to January 31, 2015	335
93.867	Vision Research	5R01EY001139-37	September 30, 2012 to August 31, 2017	1,893
93.867	Vision Research	1R01EY019105-04	April 1, 2009 to March 31, 2014	1,276
Total Questioned Costs				<b>\$ 9,875</b>

The following awards were affected by the issues discussed above in which the University charged unallowable costs:

<b>CFDA No.</b>	<b>CFDA Title</b>	<b>Award Number</b>	<b>Award Year</b>
43.000	National Aeronautics and Space Administration	NAS 9-02078	November 28, 2011 to June 30, 2014
45.129	Promotion of the Humanities - Federal/State Partnership	2014-4596	April 1, 2014 to May 31, 2014
93.310	Trans-NIH Research Support	3U54HG006348-03S1	August 31, 2013 to July 31, 2014

**Recommendations:**

The University should:

- Certify after-the-fact time and effort reports in a timely manner according to its policy.
- Include the percentage of effort that each employee spends on a grant when it performs its NIH salary limits analysis.
- Charge only allowable costs to federal awards.

**Views of Responsible Officials and Corrective Action Plan 2014:**

*We are currently implementing MAXIMUS software for effort reporting, to help ensure that after-the-fact time and effort reports are completed in a timely manner. This software will also help ensure that the percentage of effort each employee spends on a sponsored project is considered when computing NIH salary limitations. We acknowledge that*

*the five salaries charged to the NIH grants were over the monthly cap; however, only one of the salaries was not within the allowed variance per the University policy.*

*To help prevent unallowable costs from posting to sponsored projects in the future, we will modify our financial system to generate a warning message when specific unallowable expenditure accounts are used on federal fund cost centers.*

Views of Responsible Officials and Corrective Action Plan 2015:

Payroll Expenditures

*The University is in the testing phase of the MAXIMUS software implementation. Hands-on training by the MAXIMUS team and the Office of Contracts and Grants (OCG) was completed on July 8, 2015 for both staff and faculty members that will be using the software. The roll-out date was September 1, 2015 for Quarter 3 of FY2015 reporting. To manage this effort, the University has hired a dedicated staff to coordinate the effort reporting process with regards to training and overseeing the process in general. The new electronic system tracks re-certification so that the date of the original certification is recorded to account for timing of the certification. The electronic system would also eliminate the error of the certification being signed but not dated. To address the issue of late certifications after the certification due date in the University's policy, the University has updated its policy with due dates that better align with the central university's practices and processing for payroll and payroll corrections.*

*Implementation Date: September 2015*

*Responsible Persons: Beverly Rymer and Grace Rosanes*

Payroll Salary Restrictions

*The calculation worksheet and method used by the University for the DHHS salary cap considers the percentage of effort that each employee spends on a grant when it performs the Salary Cap Analysis. However, the University did not revise the effort or remove the payroll amount over the cap on the DHHS award where the amount did not exceed the 5% variance as outlined in the its effort reporting policy. We now understand that for the NIH cap a variance is not allowed and have updated our practice to verify effort with the researcher and adjust payroll or effort as needed before certification. In addition, the new MAXIMUS effort reporting system flags the DHHS awards and displays the difference between committed or reported effort and actual payroll effort based on the cap for easy verification and correction.*

*Implementation Date: September 2015*

*Responsible Persons: Beverly Rymer and Grace Rosanes*

Direct Costs (Non-payroll)

*In order to reduce the risk that unallowed direct, non-payroll, costs will be charged to a federal fund cost center, the University modified its financial system to create a warning message when an expense account that is normally not allowed on a federal cost center is used on a voucher, requisition, purchase order, or journal, along with a federal cost center. The message tells the user that an unauthorized account is saved on a specific voucher, requisition, purchase order, or journal line and asks the user to verify the account is correct. The message also tells the user to change the account, if it is incorrect, or to route the document through the Office of Contracts and Grants for workflow approval. The warning message will appear each time the document is opened or saved by the document creator or a workflow approver (department, intermediate, and final approver). The final approver in Accounts Payable, Purchasing, or General Accounting will return the document to the user if the warning message appears and the document has not been approved by Contracts and Grants, the intermediate approver. Contracts and Grants will only approve the document if the expense is allowed on the specific federal grant in question.*

*Implementation Date:* July 31, 2015

*Responsible Person:* Mike Glisson

Reference No. 2014-142

**Period of Availability of Federal Funds**

**Research and Development Cluster**

**Award years – See below**

**Award numbers – See below**

**Type of finding – Significant Deficiency and Non-Compliance**

When a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any preaward costs authorized by the federal awarding agency (Title 2, Code of Federal Regulations (CFR), Section 215.28). Unless the federal awarding agency authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions (Title 2, CFR, Section 215.71).

Institutions shall maintain internal control over federal programs that provides reasonable assurance that the institutions are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (Office of Management and Budget Circular A-133, Subpart C, Section 300).

Initial Year Written: 2014  
 Status: Partially Implemented

U.S. Department of Defense  
 U.S. Department of Energy  
 U.S. Department of Health and Human Services  
 Environmental Protection Agency  
 National Aeronautics and Space Administration

**The University of Houston (University) did not always incur costs within the period of availability and did not always liquidate its obligations within the required time period. Specifically:**

- For 3 (5 percent) of 62 transactions and adjustments tested, the University incurred the underlying expenditures outside the period of availability of the award. The University corrected one of those transactions after auditors brought it to the University’s attention; however, it did not correct the remaining 2, resulting in total questioned costs of \$6,661 associated with award number N00014-11-1-0069. The two transactions were payroll transactions for a pay period after the grant ended; the University had not corrected those charges at the time of the audit.
- For all 9 original transactions tested, the University did not liquidate the obligation within 90 days after the end of the funding period. The University liquidated the obligations associated with those 9 transactions between 91 and 199 days after the end of the funding period. For 3 of those 9 transactions, the University also did not incur the costs within the period of availability. Two of those transactions are discussed in the errors above and are included in the questioned costs of \$6,661, and the University corrected the remaining transaction. The University incurred the other six transactions within the period of availability; therefore, there were no questioned costs related to those transactions.

The University's policy is to close out federal awards within 90 days after the expiration of the award. However, the University does not have an effective process to close grant accounts in its accounting system within the required 90-day closeout period after the end of the award funding period. In addition to the errors discussed above, auditors identified 6 additional transactions that removed project deficits more than 90 days after the grants had ended. Control weaknesses increase the risk of non-compliance with period of availability requirements in applicable laws, regulations, and the provisions of federal grant agreements.

The following awards were affected by the period of availability issues discussed above:

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Costs
12.000	Department of Defense	G105536	June 1, 2012 to February 28, 2013	\$ 0

UNIVERSITY OF HOUSTON

CFDA No.	CFDA Title	Award Number	Award Year	Questioned Costs
12.300	Basic and Applied Scientific Research	N00014-11-1-0069	October 1, 2010 to August 31, 2013	6,661
12.800	Air Force Defense Research Sciences Program	FA8650-05-D-1912	November 1, 2012 to November 29, 2013	0
12.910	Research and Technology Development	N66001-11-1-4015	January 3, 2011 to March 15, 2013	0
43.007	NASA Space Operations	NNX13AH25G	November 6, 2012 to December 31, 2013	0
66.419	Water Pollution Control State and Interstate Program Support	582-10-90494-WO-22	February 19, 2013 to August 31, 2013	0
66.419	Water Pollution Control State and Interstate Program Support	582-10-90494-19	September 1, 2012 to August 31, 2013	0
81.000	Department of Energy	DE-AC02-05CH11231	December 14, 2012 to September 30, 2013	0
81.049	Office of Science Financial Assistance Program	DE-FG02-07ER41518	August 15, 2010 to March 14, 2014	0
81.135	Advanced Research and Projects Agency - Energy Financial Assistance Program	DE-AR0000141	January 1, 2012 to July 31, 2013	0
93.213	Research and Training in Complementary and Alternative Medicine	5R01AT005522-04	September 1, 2012 to August 31, 2013	0
93.239	Policy Research and Evaluation Grants	60079362-104354-F	March 1, 2012 to September 29, 2013	0
Total Questioned Costs				\$6,661



Recommendation:

The University should develop and implement a process to help ensure that it closes grant accounts in its accounting system within the required 90-day closeout period to help ensure that it complies with all period of availability requirements for federal awards.

Views of Responsible Officials and Corrective Action Plan 2014:

*We will modify our procedures to help ensure that we comply with all period of availability requirements for federal awards as specified by the new Uniform Administrative Requirements.*

Views of Responsible Officials and Corrective Action Plan 2015:

*The University developed close out processes in keeping with the new Uniform Guidance that recognizes a close out period and a post-close out period. The University closes grant accounts in its accounting system during the post-close out period when it determines that all applicable administrative actions and all requirements of the Federal award have been completed including final payments.*

*Closeout - No later than 90 calendar days after the end date of the period of performance (grant end date), the University will liquidate all of its obligation, and will submit all financial, performance, and other reports as required by the terms and conditions of the Federal award or our federal flow-through agency. Some agencies may allow more time for final reports or may give the University authorization for an extension.*

*Post-closeout- Flow-through agencies and federal agencies that do not use the letter of credit payment method have up to 90 days after final financial statement or invoice to pay the University. Therefore after the period of availability, the University will continue to carry out post-close out adjustments and have continuing responsibilities that may involve making upward or downward adjustment to the award budget and expenses in its accounting system in order to align them with the amounts reported to the sponsor and paid to the University. In addition, the Office of Contracts and Grants (OCG) financial office, rather than the responsible department, will remove unallowable expenses, during the close out period and during the post-close out period as well.*

*Payroll: In order to reduce the occurrences of payroll expenses outside of the period of performance posting to the grant account, the University has modified its financial system to validate the paycheck earning dates against the grant end date. If the earning date is after the grant end date, the payroll will post to a University suspense cost center instead of the grant account. In the past, verifying payroll outside of the period of performance was done manually. The questioned cost of \$6,661.00 in the 2014 finding was payroll outside of the period of performance not caught by the manual check. As part of the post-close out continuing responsibility, the sponsor was contacted, the final financial report was revised, the grant budget and expenses were adjusted, and a refund check was issued to the sponsor. Moving forward, the system control put in place will prevent payroll from posting to the grant account after the period of performance. The University has also implemented the online routing of payroll reallocations (eRAF). The reallocations forms will not validate or route through the financial system for approvals and post to the grant cost center if the accounting date of the award is closed. The accounting date on federal grants are set up in the financial system to close 90 days after the expiration of the award. A request must be made to the central Office of Grants and Contract office to extend this date for post close out activities.*

*Non-payroll: In order to reduce the instances of non-payroll expenses outside of the period of performance, the University has modified its financial system to check the invoices dates against the grant ending date. Vouchers using a federal fund now generate a warning message when an invoice date is entered that is after the grant end date. The warning message notifies the user that the invoice date is after the grant end date and instructs the user to send the voucher through the Office of Contracts and Grants for workflow approval. The warning message appears each time the voucher is saved or opened by the voucher creator or a workflow approver (department, intermediate, and final approver). Accounts Payable, the final approver, will return the voucher to the user if the warning message appears and the voucher has not been approved by Contracts and Grants, the intermediate approver. The University understands that there can be invoices with dates outside of the period of performance in which the work done by the vendor or contractor is within the period of performance. Also, under the new Uniform Guidance, expenses for*

*publications can be paid after the period of performance. The purpose of the internal control is to ensure that such expenses are being verified before they are charged to a federal grant. The voucher can still be processed if Contracts and Grants determines that the cost is allowable.*

*Implementation Date: August 31, 2015*

*Responsible Persons: Beverly Rymer and Mike Glisson*

Reference No. 2014-143

## Reporting

### Research and Development Cluster

Award years – See below

Award numbers – See below

Type of finding – Significant Deficiency and Non-Compliance

### Financial Reporting

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award (Title 2, Code of Federal Regulations (CFR), Sections 215.51 and 215.52). Recipients use the Federal Financial Report Standard Form (SF)-425 to report financial activity. The U.S. Office of Management and Budget provides specific instructions for completing the SF-425, including definitions and requirements of key reporting elements.

Initial Year Written: 2014  
Status: Partially Implemented

U.S. Department of Health and  
Human Services  
U.S. Department of Energy  
National Aeronautics and  
Space Administration

**The University of Houston (University) did not ensure that its financial reports were accurate and supported by applicable accounting records.** Specifically, 4 (7 percent) of 60 financial reports tested did not accurately reflect the indirect costs, indirect cost base amounts, cash disbursement, and cash receipt amounts. The University does not have a consistent review and approval process to help ensure that financial reports are complete and accurate. Inaccurate information in financial reports increases the risk that federal agencies could rely on inaccurate information to manage and monitor awards.

### Corrective Action:

Corrective action was taken.

### Federal Funding Accountability and Transparency Act Reporting

The Federal Funding Accountability and Transparency Act (Transparency Act) requires prime recipients of federal awards made on or after October 1, 2010, to capture and report subaward and executive compensation data regarding first-tier subawards that exceed \$25,000. Prime recipients are to report subaward information no later than the end of the month following the month in which the obligation was made (Title 2, CFR, Chapter 170).

**The University did not submit the required Transparency Act reports within required time frames for all five reports tested.** It submitted one of those five reports 96 days late; the remaining four reports were subaward modifications that the University did not report. The University asserted that it did not submit the subaward modifications because it was not aware of the requirement to report subaward actions after the initial subaward. In addition, the University does not have an effective monitoring process to help ensure that it submits reports in a timely manner when required.

UNIVERSITY OF HOUSTON

---

Not reporting Transparency Act reports in a timely manner decreases the reliability and availability of information to the awarding agency and other users of that information.

The following awards were affected by the Transparency Act reporting issues discussed above:

<u>CFDA No.</u>	<u>CFDA Title</u>	<u>Award Number</u>	<u>Award Year</u>
93.243	Substance Abuse and Mental Health Sciences-Projects of Regional and National Significance	1H79SP020184-01	September 30, 2013 to September 29, 2016
93.273	Alcohol Research Programs	5 R01 AA014576-10	September 6, 2004 to July 31, 2016
93.859	Biomedical Research and Research Training	5 R01 GM097553-03	September 30, 2011 to August 31, 2016
93.865	Child Health and Human Development Extramural Research	2P50HD052117-08	February 1, 2006 to November 30, 2016

Recommendation:

The University should strengthen controls to help ensure that it accurately reports subawards and subaward modifications that are subject to Transparency Act requirements in a timely manner.

Views of Responsible Officials and Corrective Action Plan 2014:

*We have implemented procedures for the Federal Funding Accountability and Transparency Act (FFATA) reporting, which will help ensure that all required reports are prepared and submitted in a timely manner.*

Views of Responsible Officials and Corrective Action Plan 2015:

*During February 2016, we modified our procedures for the Federal Funding Accountability and Transparency Act (FFATA) reporting, to help ensure that all required reports are prepared and submitted in a timely manner.*

*Implementation Date: February 2015*

*Responsible Persons: Beverly Rymer and Javeria Kazi*

## University of Houston - Downtown

Reference No. 2014-144

### Eligibility

(Prior Audit Issue 11-158)

### Student Financial Assistance Cluster

Award year – July 1, 2013 to June 30, 2014

Award numbers – CFDA 84.007, Federal Supplemental Educational Opportunity Grants, P007A134118; CFDA 84.033, Federal Work-Study Program, P033A134118; CFDA 84.063, Federal Pell Grant Program, P063P132306; and CFDA 84.268, Federal Direct Student Loans, P268K142306

Type of finding – Significant Deficiency and Non-Compliance

### 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 the expected family contribution (EFC) (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087kk). The phrase "cost of attendance" refers to the "tuition and fees normally assessed for 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 may also include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087ll).

Initial Year Written:	2010
Status:	Implemented
U.S. Department of Education	

For Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and is computed by the federal central processor and included on the student's Institutional Student Information Record (ISIR) provided to the institution. 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 (Title 34, Code of Federal Regulations (CFR), Sections 668.2 and 673.5).

A full-time student is defined as an enrolled student who is carrying a full-time academic workload, as determined by the institution, under a standard applicable to all students enrolled in a particular educational program. For an undergraduate student, an institution's minimum standard must equal or exceed 12 semester hours. A half-time student is defined as an enrolled student who is carrying a half-time workload, as determined by the institution, which amounts to at least half of the workload of the applicable minimum requirement outlined in the definition of a full-time student (Title 34, CFR, Section 668.2).

The University of Houston - Downtown (University) established different COA budgets for students based on living status (off-campus, with parents, and with parents with dependent) and term enrollment (full-time, three-quarter-time, half-time, and less-than-half-time). For Summer semesters, the University budgets students using a Summer budget if the students request financial assistance for the Summer. The University budgets students at full-time anticipated enrollment for the Fall, Spring, and Summer semesters. At the census date of each semester, the University manually adjusts students' COA budgets based on actual enrollment from system generated reports.

**For 5 (8 percent) of 60 students tested, the University incorrectly or inconsistently calculated COA. Specifically:**

- For three students, the University incorrectly performed a manual adjustment to the students' COA budgets. As a result, the students' COA budgets were each overstated by \$2,093.
- For two students, the University assigned the incorrect living status budget component. That occurred because of an error in the automated financial assistance budgeting processes. The budgeting processes accepted the "with parents" living status prior to checking whether the students satisfied the criteria for "with parents with dependent" living status. As a result, the students' COA budgets were understated by \$370 and \$185.

The errors did not result in overawards for these five students; however, by incorrectly calculating COA, the University increases the risk of overawarding or underawarding financial assistance to students.

Satisfactory Academic Progress

A student is eligible to receive Title IV, Higher Education Act (HEA) Program assistance if the student maintains satisfactory progress in his or her course of study according to the institution’s published standards of satisfactory progress that satisfy the provisions of Title 34, CFR, Section 668.16(e), and the provisions of Title 34, CFR, Section 668.34 (Title 34, CFR, Section 668.32(f)). An institution’s satisfactory academic progress (SAP) policy should include a qualitative component that consists of grades or comparable factors that are measurable against a norm, and a quantitative component that consists of the pace at which students must progress through their program to ensure that they will graduate within the maximum time frame required to complete their education (U.S. Department of Education *2013-2014 Federal Student Aid Handbook*).

An institution’s policy must describe how a student’s grade point average (GPA) and pace of completion are affected by course incompletes, withdrawals, or repetitions, or transfers of credit from other institutions. Credit hours from another institution that are accepted toward the student’s educational program must count as both attempted and completed hours (Title 34, CFR, Section 668.34(a)(6)). The University’s completion rate policy requires students to complete 73 percent of all hours attempted, including transfer hours.

**The University did not always apply its SAP policy consistently. For 1 (2 percent) of 60 students tested, the University disbursed aid to a student who did not meet the University’s pace of completion requirement.** That occurred because the student’s transfer credits were not included in the automated SAP calculation; as a result, the student was not flagged as not meeting SAP requirements. The student had received \$7,424 in Federal Direct Loans associated with award number P268K142306 for which the student was not eligible. After auditors brought this matter to its attention, the University returned all federal aid; therefore, there were no questioned costs.

Not evaluating and documenting the review of students’ satisfactory academic progress increases the risk of awarding financial assistance to ineligible students.

Corrective Action:

Corrective action was taken.

Reference No. 2014-145

**Special Tests and Provisions – Verification**

**Student Financial Assistance Cluster**

**Award year – July 1, 2013 to June 30, 2014**

**Award numbers – CFDA 84.063, Federal Pell Grant Program, P063P132306; CFDA 84.033, Federal Work-Study Program, P033A134118; CFDA 84.268, Federal Direct Student Loans, P268K142306; and CFDA 84.007, Federal Supplemental Educational Opportunity Grants, P007A134118**

**Type of finding – Significant Deficiency and Non-Compliance**

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, child support paid, food stamps, education credits, individual retirement account deductions, other untaxed income, high school completion, and identity and statement of educational purpose (Title 34, Code of Federal Regulations (CFR), Sections 668.54 and 668.56, and *Federal Register* Volume 77, Number 134). When the verification of a student’s eligibility results in any change to a non-dollar item or a change to a single dollar item of \$25 from the student’s original FAFSA, the institution must submit a correction to the U.S. Department of Education and adjust the student’s financial aid package on the basis of the expected family contribution (EFC) on the corrected Institutional Student Information Record (ISIR). For the Federal Pell Grant Program, if a student’s FAFSA information changes as a result of verification, an institution must recalculate the student’s Federal Pell Grant on the

Initial Year Written:	2014
Status:	Implemented
U.S. Department of Education	

basis of the EFC on the corrected ISIR and disburse any additional funds under that award (Title 34, CFR, Section 668.59).

**For 5 (8 percent) of 60 students tested, the University of Houston – Downtown (University) did not accurately verify all required items on the FAFSA.** Therefore, it did not subsequently update its records and request updated ISIRs as required. For those five students, the University did not accurately verify one or more of the following items: the number of household members, the number of household members who are in college, income earned from work for non-tax filers, education credits, and the amount of U.S. income taxes the student paid.

When auditors brought the errors to the University's attention, the University made corrections to the students' ISIRs. For one student, the EFC was overstated and the student should have received an additional \$400 in Pell Grant assistance associated with award P063P132306. The University subsequently awarded the additional \$400 in Pell Grant assistance. For the remaining four students, the errors did not result in changes to the students' EFC and there was no overaward or underaward of financial assistance.

Those errors occurred because of manual errors the University made during the verification process, and because the University does not have an adequate process to monitor verification. Not properly verifying FAFSA information could result in the University overawarding or underawarding student financial assistance.

Corrective Action:

Corrective action was taken.



**University of Houston - Victoria**

Reference No. 2013-167

**Special Tests and Provisions – Verification**

**Student Financial Assistance Cluster**

**Award year – July 1, 2012 to June 30, 2013**

**Award numbers – CFDA 84.063, Federal Pell Grant Program, P063P123632; CFDA 84.007, Federal Supplemental Educational Opportunity Grants, P007A124901; and CFDA 84.268, Federal Direct Student Loans, P268K133632**

**Type of finding – Significant Deficiency and Non-Compliance**

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, child support paid, food stamps, education credits, IRA deductions, and other untaxed income (Title 34, Code of Federal Regulations (CFR), Sections 668.54 and 668.56 and *Federal Register*, Volume 76, Number 134). 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 student’s FAFSA, the institution must submit a correction to the U.S. Department of Education and adjust the applicant’s financial aid package on the basis of the expected family contribution (EFC) on the corrected Institutional Student Information Record (ISIR). For the Federal Pell Grant Program, if an applicant’s FAFSA information changes as a result of verification, an institution must recalculate the applicant’s Federal Pell Grant on the basis of the EFC on the corrected ISIR and disburse any additional funds under that award (Title 34, CFR, Section 668.59).

Initial Year Written:	2013
Status:	Implemented
U.S. Department of Education	

**For 10 (17 percent) of 60 applicants tested, the University of Houston - Victoria (University) did not retain supporting documentation for some of the information required to be verified or did not accurately verify certain required items on the FAFSA. Specifically:**

- For three applicants, the University did not accurately verify the applicants’ AGI or education credit; therefore, it did not subsequently update its records and request updated ISIRs as required. Based on the information the University provided, that resulted in a \$125 overaward of a Federal Pell Grant for one applicant and a \$900 Federal Pell Grant overaward for another applicant (both overawards were associated with award number P063P123632). After auditors brought those issues to the University’s attention, the University provided evidence that it corrected the overawards; therefore, there are no questioned costs associated with those errors.
- For seven applicants, the University could not provide supporting documentation for some of the information it was required to verify; therefore, auditors could not determine whether the FAFSA amounts the applicants reported were correct. For those applicants, the University did not retain support for one or more of the following amounts: AGI, Supplemental Nutrition Assistance Program benefits, child support paid, IRA deductions, and education credits.

The above errors occurred because of manual errors the University made in verification. Not properly verifying FAFSA information could result in the University overawarding or underawarding student federal financial assistance.

Corrective Action:

Corrective action was taken.