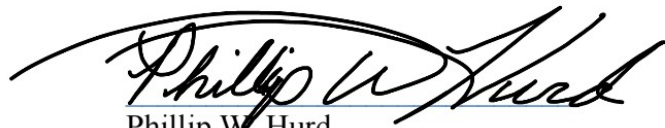


**University of Houston System
Annual Fraud Prevention and Awareness Report
FY 2023**



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Chief Audit Executive
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The Audit Committee Planner, Item 5.05, requires the Committee to evaluate management's identification of fraud risks, the implementation of fraud 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 university.

University of Houston and UH System Administration

In October 2023, UH and UHSA departments completed their 18th annual online Department Fraud Risk Survey 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 (Accounts Payable, Accounting Services, Financial Computing, Human Resources, Purchasing, Payroll, Information Technology, etc.) completed an Institutional Fraud Risk Survey to identify procedures within their units 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.

During October - November 2023, all UHS employees are required to complete online Ethics, Compliance, and Fraud training. This is the 17th year that training has been required for fraud and ethics. The purpose of this training is to raise awareness of appropriate and inappropriate behavior for UHS employees, encourage compliance, fraud prevention and detection, and encourage the reporting of suspected non-compliance and fraudulent activity.

In addition, Ethics and Conflicts of Interest and Procurement training was provided to educate employees on the relevant Board and University policies, recent policy changes, state procurement requirements and how employees should avoid possible conflicts of interest. This annual training must be completed by full-time faculty, full-time exempt staff, and non-exempt staff with procurement responsibilities at all UHS components.

Procurement cards (P-Cards) reduce the time and effort required to make small-dollar purchases and decrease the number of employee reimbursements. Also, Travel Cards are a convenient tool to pay for airfare, hotels, rental cars and other UH travel expenses. However, P-Card and Travel Card transactions must be carefully reviewed to ensure all transactions are appropriate and documented. In addition to reviews within each department, Accounts Payable reviews selected P-Card transactions for appropriateness and documentation. If Accounts Payable discovers any irregular activity, it is reported to Internal Audit for further investigation. All P-Card and Travel Card cardholders are required to complete online training prior to receiving a credit card and annually thereafter. Also, P-Card and Travel Card applicants are required to pass a criminal history investigation prior to receiving a credit card.

In November 2015, all UH departments began using the Concur Travel Management System to document pre-trip approval and post-trip expense reports. Concur Travel Management System

provides extra control over travel expenses, which makes it more difficult to commit fraud. For instance, Concur Travel Management System requires receipts for certain types of travel expenses (airfare, hotels, rental cars, etc.) and for all Travel Card transactions regardless of amount or type. Also, 100% of Travel Card transactions are reviewed and approved by Accounts Payable in Concur Travel Management System. The user, date, and time are stored automatically for all travel requests and expense reports created, documents uploaded, approvals made, and comments entered in Concur Travel Management System. Therefore, Concur Travel Management System provides more transparency to the travel process.

In FY 2021, the University of Houston implemented external Vendor Management System called PaymentWorks which is used for all new vendor set up and vendor information changes for the System. This system requires all vendors to make their own information updates via an encrypted environment. PaymentWorks also provides the System with additional vendor data confirmations including matching tax identification number to vendor legal name, address verification, and matching bank account and name information. These validations help the System to eliminate fraudulent requests for changes, reduce the risks of manual processes, to have assurances that vendor information is current and correct, and to know that the vendor is who they say they are.

In September 2021, University of Houston worked with other UH campuses and implemented logic safeguards to ensure duplicate invoices cannot be entered and controls not circumvented to allow replica information into the PeopleSoft Finance System and allow any potential losses. Additionally, training materials were developed addressing the importance of date and invoice number accuracy.

University of Houston is currently in the process of implementing an artificial intelligence logic system automation and vendor maintenance that contains – automated risk management that supports exception resolution; anti-fraud controls utilizing the standard tests; automated supplier risk profiling; identification of exceptions in supplier data; automatic systematic hygiene and maintenance of the master vendor file; and actionable reporting and dashboards.

UH Finance maintains a link to fraud and institutional compliance frequently asked questions on the Finance home page (www.uh.edu/office-of-finance), which includes instructions for reporting suspected fraud and non-compliance through the telephone hotline or web link.

University of Houston-Clear Lake

Following the establishment of the campus Institutional Compliance program in 2022, the University of Houston-Clear Lake has continued to expand fraud prevention and awareness activities. The Vice President of Administration and Finance is designated as the campus contact person for fraud and prevention, and through the unit of Business Operations, he has initiated an internal risk assessment checklist for all finance and business operations on campus.

Following the initial assessment of the checklist results, university components will identify key areas of focus with the goal of identifying and prioritizing areas of risk for fraud and developing mitigation strategies.

Included in these mitigation strategies will be a review of policies and procedures, training to elevate fraud awareness and fraud prevention strategies, as well as clear communication of

expectations for ethical behavior and the key drivers of fraud: pressure, rationalization, and opportunity.

Based on the initial fraud risk assessment results, no significant problems or trends were noted. An overall rating was reported, but it is important to note that as this program matures and training for raters improves their ability to assess both the likelihood of occurrences and the significance of those events, should they occur, this rating will gain more relevance and accuracy.

UHCL's review of selected operations is a continuation of prior years and includes repeat areas such as change funds and service departments' inventories. Change fund audits were conducted on selected departments that collect cash payments from customers. No significant discrepancies were reported for the quarter ended August 31, 2023.

The P-card is administered by the Department of Contract Administration. P-card training is mandatory for all P-card holders, P-card processors, and the P-card administrator. Of specific focus for 2023 in the area of P-card procedures was a review of individual card limits, ensuring limits were not above historical use. Several card limits were reduced, thereby lowering the opportunity for fraud.

The university continues to encourage and educate staff and students on the institutional compliance program, the fraud and non-compliance hotline, and online reporting, and has expanded and refined the "Report It" section of our web page, ensuring easy access and that education is provided to all new employees during New Employee Orientation. All employees continue to receive mandatory online training on fraud awareness, code of ethics, and information security awareness. To augment this awareness, UHCL is planning its first "Compliance Week", which will occur early in the next reporting period. It will be full of training, discussions, and events to focus on and enhance compliance awareness among UHCL staff. Specific focus groups are identified to ensure key target populations are reached during this event.

UHCL continues to conduct random physical inventory checks in addition to the annual physical inventory done each year. The spot checks have provided some level of assurance that departmental property custodians are submitting accurate information regarding changes to their inventories. This also ensures the importance of accountability and maintaining control of university property. In addition, the UHCL Asset Management Coordinator is a member of the Employee Separation Clearance process who ensures and verifies that the employees have returned the property assigned to them prior to their separation from the university

University of Houston-Downtown

The UHD Accounts Payable (AP) department processed over 9,000 vouchers during FY 2023, with every voucher audited in AP to ensure legitimacy of the amounts paid. The payments were made in accordance with appropriate contracts and purchase orders which comply with State, UHD and UH System policies. AP analysts who perform these audits receive training on

detecting possible fraudulent transactions, as well as any incorrect or inappropriate transactions, and report them to AP department management.

UHD's purchases via P-Cards averaged \$182,000/month in FY 2023 which was higher than the FY 2022 average of \$161,000/month because of decreased spending due to the COVID-19 pandemic. Examples of P-Card fraud occurring in both the public and private sectors remains abundant. Recognizing this exposure, UHD has 1.5 positions in the Purchasing Department that are responsible for oversight of the P-Card program. Questionable charges are subject to multiple levels of review. Based upon the severity or repetition of the violation(s), disciplinary action may include an email or verbal warning, retraining/suspension of the card, cancellation of the card, reimbursement to the University, and/or termination of employment with the University. FY 2023 was the first year after a program review which included updated processes and procedures to prevent fraud and misuse, and during this time the program did not experience any major infractions.

The administrative personnel for all UHD departments participated in the annual Fraud Prevention Survey during August 2023. The survey was intended to identify internal controls within each department that may need to be strengthened in order to prevent and detect fraud, and to remind administrators and department heads of their responsibility to remain vigilant in fraud prevention and detection throughout the upcoming year. No significant problems or trends were noted in the results of the UHD Annual Fraud Prevention Survey.

The University Property Manager is included as a signatory on the Employee Separation Clearance Form to ensure that University property assigned to employees is returned prior to the employees' departure.

University of Houston-Victoria

The University of Houston-Victoria continues the use of a variety of strategies within the framework of the campus Institutional Compliance Program in its efforts to prevent fraud and raise fraud awareness.

New employee orientation sessions in FY 2023 continued to focus on the importance of their role in fraud prevention and the considerable damaging effects that fraud can have on the university and the individual. The intent is that new employees have a better understanding of fraud in an educational setting and know they should report fraud when they become aware of or suspect it.

The Mandatory and Role Based Training program continues to be an important part of the campus program. The training modules focusing on fraud prevention and awareness included Fraud Awareness, Code of Ethics, Secure Our Systems, and Credit Card Data Security (a role-based module). The Department of Talent Development managed the training program and achieved a participation/completion rate of 99%.

The campus has implemented the use of posters posted in campus buildings and residence halls as a method of making employees and students aware of fraud and ethics violations as well as the Fraud & Non-Compliance Hotline and other reporting options.

UHV Review of Select Operations

- Identity Theft Program - The fiscal year just ended marked the 14th year of the campus Identity Theft Program that was implemented in April 2009 to help prevent fraud associated with identity theft.
- Departmental Fraud Risk Survey - The most recent Departmental Fraud Risk Survey was completed in January 2022. All University departments completed the survey, and compliance issues were addressed. The survey increases departmental awareness of university policies and procedures and is intended to help unit heads become aware of weaknesses in their operations and internal controls that can lead to fraud. UHV is in the process of completing a Fraud Risk Survey for FY23.
- Financial Aid Program - A significant managed activity at UHV and most universities is the proper administration of federal, state, and campus student financial aid grants, loans, and scholarships in the Financial Aid Department. In FY 2023, approximately \$34 million of financial aid was disbursed involving over 3,718 students. Risk is managed through operational and internal controls reinforced with frequent audit oversight. Annually, each Financial Aid employee is required to sign a Standards of Conduct and Conflict of Interest Certification acknowledging awareness of prohibited activities and the responsibility to report any conflict of interest, violations of law, fraud, or other irregularities promptly.
- Expenditures of State and Local Funds (including grant funds) – The University budget for FY 2023 included state-appropriated and local funds (all ledgers) of \$67.5 million. As confirmed by the Comptroller and the Human Resources Director, there were no confirmed incidents of fraud in the expenditure of state and local funds for vendor voucher payments, employee reimbursements, or payroll during this reporting period.
- Procurement Card Program – There were no known or reported allegations of employee fraud involving P-Card expenditures. In FY 2023, 135 active cardholders processed \$1.676 million of expenditures representing over 7,810 transactions. Annual Credit Card Data Security and P-Card refresher training continues to be required, and each cardholder must acknowledge by signature their responsibilities as a departmental purchaser. New P-Card applicants are required to pass a criminal history investigation prior to issuance of a card.