



An Audit Report on

# **Contracting at the University of Houston**

January 2020  
Report No. 20-020



## Overall Conclusion

The University of Houston (University) planned and formed its contracts for basketball arena enhancements (basketball arena contract) and chemical waste disposal services (chemical waste contract) in accordance with applicable requirements and its *Contract Management Handbook*. The University also complied with applicable requirements related to contracting policies, procedures, and training.

In addition, the University complied with most procurement requirements for those two contracts, as well as a contract for asbestos and lead consulting services (consulting services contract). However, it should strengthen some procurement processes such as those related to emergency purchases and conflict of interest statements. The University should also enhance compliance with statutory reporting requirements.

The University had some effective contract monitoring and oversight processes in place but did not consistently submit timely payments to two contractors or include interest charges on overdue payments as required by statute. Additionally, the University lacked (1) policies and procedures for closing out contracts and (2) documentation of ongoing monitoring activities related to the basketball arena contract.

Table 1 on the next page presents a summary of the findings in this report and the related issue rating. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

### Background Information

The following three University contracts were audited:

- **Basketball arena enhancements (basketball arena contract).** The University entered into a contract on December 14, 2016, with Turner Construction Company to provide construction and pre-construction services for enhancements to the University's Fertitta Center (basketball arena) for an initial construction cost limitation of \$48.0 million.
- **Chemical waste disposal services (chemical waste contract).** The University entered into a contract on August 19, 2014, with Veolia ES Technical Solutions, LLC to provide chemical waste disposal services for the University for an amount not to exceed \$950,000.
- **Asbestos and lead consulting services (consulting services contract).** The University entered into a contract on February 28, 2017, with EFI Global, Inc. to provide asbestos and lead consulting services for an amount not to exceed \$1.0 million.

Source: The University.

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating <sup>a</sup>
1	The University Planned and Formed the Basketball Arena and Chemical Waste Contracts in Accordance with Applicable Requirements	Low
2	The University Complied with Most Procurement Requirements for All Three Contracts; However, It Should Strengthen Some Procurement Processes	Medium
3	While the University Complied with Certain Monitoring Requirements for the Basketball Arena and Chemical Waste Contracts, It Should Strengthen Some Monitoring Activities	High
4-A	The University Complied with Applicable Requirements Related to Contracting Policies, Procedures, and Training	Low
4-B	The University Should Enhance Compliance with Statutory Reporting Requirements	Medium

<sup>a</sup> A chapter/subchapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the **audited entity's ability to effectively administer the program(s)/function(s)** audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the **audited entity's ability to effectively administer the program(s)/function(s)** audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the **audited entity's ability to effectively administer the program(s)/function(s)** audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

A chapter/subchapter is rated Low **if the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s)** audited or the issues identified do not present significant risks or effects that would negatively affect the audited **entity's ability to effectively administer the program(s)/function(s)** audited.

Auditors communicated other, less significant issues separately in writing to University management.

### ***Summary of Management's Response***

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The University agreed with the recommendations in this report.

### ***Audit Objective and Scope***

The objective of this audit was to determine whether the University administered certain contract management functions for selected contracts in accordance with applicable requirements.

The scope of this audit covered:

- **The University's contract**-related processes for the basketball arena contract effective December 14, 2016, through August 9, 2019.
- **The University's contract**-related processes for the chemical waste contract effective August 19, 2014, through August 9, 2019.
- **The University's procurement process for the** consulting services contract effective February 28, 2017.

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# Detailed Results

Chapter 1

## The University Planned and Formed the Basketball Arena and Chemical Waste Contracts in Accordance with Applicable Requirements

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Chapter 1  
Rating:

Low<sup>1</sup>

The University of Houston (University) planned and formed its two contracts related to basketball arena enhancements and chemical waste disposal services in accordance with applicable statutes and its *Contract Management Handbook*. (See text box for more information about two of the audited contract management phases.)

**Contract Planning.** The University performed the contract planning activities necessary for identifying the audited contracts' objective and procurement strategies. Specifically, the University developed and approved planning documents, which included a cost estimate, a project schedule, and a needs assessment.

**Contract Formation.** The audited contracts contained the essential contract clauses required by the University's *Contract Administration Handbook*. The audited contracts were reviewed and approved according to University policy and conformed to the scopes of work prescribed by the University.

### Contract Planning and Formation

**Planning:** Identify contracting objectives and strategy.

**Formation:** Ensure that the contract contains provisions that hold the contractor accountable for producing desired results, including all relevant terms and conditions, and establish processes that are cost-effective and aligned with the cost of providing the goods and services.

Source: *State of Texas Contract Management Guide*.

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<sup>1</sup> The risk related to the issues discussed in Chapter 1 is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

## **The University Complied with Most Procurement Requirements for All Three Contracts; However, It Should Strengthen Some Procurement Processes**

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**Chapter 2  
Rating:**  
Medium<sup>2</sup>

The University complied with most procurement requirements for all three contracts audited. However, the University should strengthen procurement processes related to emergency purchases, excluded parties verification, and conflict of interest statements and nepotism disclosures.

**Procurement Process.** For the three audited contracts, the University complied with most applicable statutes and University policies and procedures related to procurement. For example, the University used the correct procurement process for each contract. The University also ensured that, when applicable, the requests for qualifications and requests for proposal included all required information and were properly approved and solicited. Additionally, when applicable, the University ensured that the final evaluation criteria used to score the proposals were consistent with the criteria identified in the solicitations. The University reviewed each proposal against the criteria listed in the solicitations and scored all proposals correctly. The University selected the appropriate contractor for each contract audited.

**Emergency Purchase.** The University had the required justification for procuring the chemical waste contract as an emergency purchase; however, the University procured the emergency contract with a term of five years. A shorter term would have allowed for a timely competitive bidding process. While the University does have a policy for emergency purchases (see text box), the policy does not reflect best practices of either an effort to require (1) competitive bidding based on contract price or (2) rebidding the contract competitively as soon as possible. For those best practices, the University's *Contract Management Handbook* references *The State of Texas Procurement and Contract Management Guide*, which states that emergency purchases should not exceed the scope or duration of the emergency; should be as competitive as possible; and should have a formal competitive solicitation for an emergency, when possible, if valued at greater than \$100,000. The chemical waste contract had a not-to-exceed value of \$950,000. Not seeking competitive

### **Emergency Purchases**

An emergency purchase requires a letter of justification signed by the college/division administrator stating:

- Cause and reason of emergency,
- Financial or operation damage caused by emergency, and
- Why the needs were not or could not be anticipated.

Source: University Manual of Administrative Policies and Procedures, policy number 04.01.01.

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<sup>2</sup> The risk related to the issues discussed in Chapter 2 is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

opportunities in emergencies or not limiting the term of emergency contracts so that it can rebid competitively as soon as possible could cause the University to select services that do not provide the best value to the institution.

**Excluded Parties.** The University did not verify that the selected contractors were not listed in the Excluded Parties List System (EPLS) for the basketball arena and the consulting services contracts (see text box for more information on EPLS). The University's *Purchasing Guidelines*, Section 7.4, state that purchasing staff will check the EPLS and upload a screen print of the results to the purchase order. However, there was no documentation to support that EPLS was checked for the two contracts. Not checking the EPLS increases the risk that the University could award contracts to entities that are suspended or debarred due to fraud, theft, or violations of federal statute. Auditors verified that none of the contractors were excluded or debarred.

**Excluded Parties List System (EPLS)**

The EPLS is a federal Web-based system that identifies parties excluded from receiving federal contracts, certain subcontracts, and certain types of federal financial and non-financial assistance and benefits.  
Source: U.S. General Services Administration.

**Conflict of interest statements and nepotism disclosures.** The University ensured that most employees involved in purchasing for all three audited contracts completed required annual conflict of interest and nepotism training (see text box for required disclosures). However, the University's policy did not reflect the actual training process. The policy requires employees to sign nepotism and conflict of interest disclosure statements, but the process requires employees to attend the training and provide written support only if conflicts exist. All 11 employees involved with the consulting services contract attended the required annual training, but some purchasing employees involved with the basketball arena and chemical waste contracts did not complete the required training. Therefore, some employees did not receive the instruction to make disclosures regarding nepotism or conflicts of interest. Specifically, the University did not have supporting documentation that:

**Required Disclosures**

**Conflict of Interest Statement** - Title 34, Texas Administrative Code, Section 20.158, requires state agency employees involved in procurement or in contract management to disclose known potential conflicts of interest related to a contract with a private vendor or a bid for the purchase of goods or services from a private vendor.

**Nepotism Disclosure** - Texas Government Code, Section 2262.004(b), requires each of the state agency's purchasing personnel working on a major contract to disclose certain relationships and financial interests with the business entity before the contract is awarded.

- 2 (33 percent) of 6 employees involved with the chemical waste contract attended the required annual training.

- 1 (10 percent) of 10 employees involved with the basketball arena contract attended the required annual training.

Not aligning University disclosure policy with its process and not ensuring that all required employees complete the annual training increases the risk of awarding a contract based on financial interest or a personal relationship.

#### Recommendations

##### The University should:

- Strengthen its emergency purchase policy to include contract value thresholds and the requirement to rebid as soon as feasible to ensure best value to the University.
- Ensure that purchasing staff follow its policy to verify that potential contractors are not included in the EPLS.
- Align its conflict of interest and nepotism disclosure process and its policy to ensure that all applicable personnel complete the training.

#### Management's Response

*The University will update procurement guidelines by June 30, 2020 to require formal competitive solicitations for large contracts when possible, and place a maximum time length on emergency contracts that require rebidding.*

*The University will reiterate the requirement to verify excluded parties and add this to the Requisition checklist used by the Purchasing Staff by March 31, 2020.*

*The University will modify business processes to require: 1) all employees that participate in procurements to have completed applicable Conflict of Interest training in the most recent complete training cycle and exclude employees that did not complete their training from participation; and 2) obtain Nepotism disclosures from all persons participating in a formal procurement by March 30, 2020.*

## ***While the University Complied with Certain Monitoring Requirements for the Basketball Arena and Chemical Waste Contracts, It Should Strengthen Some Monitoring Activities***

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Chapter 3  
Rating:  
High <sup>3</sup>

The University had some effective contract monitoring and oversight processes in place, but it did not consistently submit timely payments to the contractor or include interest charges on overdue payments as required by Texas Government Code, Section 2251.025. It also lacked documentation of ongoing monitoring activities related to the basketball arena contract and lacked policies and procedures for contract closeouts.

### Basketball Arena Contract

Although the University met several contract monitoring and oversight requirements related to the basketball arena contract, a lack of thorough documentation of monitoring activities and errors in contractor payments indicated deficiencies in the University's oversight and monitoring process.

The University ensured that:

- The construction manager-at-risk (1) produced key deliverables such as bonds, insurance policies, and permits required by the University and (2) complied with contract requirements for pre-construction services and Texas Education Code, Section 51.782(i)(j), requirements for competitive subcontracting.
- It employed a qualified contract management team to oversee the contract and that it complied with enhanced monitoring requirements in Texas Government Code, Sections 2261.253 and 2261.254(a)(b) and (c).
- Change orders were managed according to University policies and contract terms.

However, the University should improve its processes related to (1) documentation of monitoring activities, (2) payment processing, and (3) contract closeouts.

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<sup>3</sup> The risk related to the issues discussed in Chapter 3 is rated as High because the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

**Ongoing Monitoring Activities.** The University did not retain certain monitoring documentation required by the contract and did not have a documented contract monitoring process (see text box for the ongoing monitoring for the contract). As a result, it did not consistently and sufficiently document its ongoing monitoring activities. Specifically, the University did not consistently retain (1) documentation of required meetings (including attendance by required parties); (2) daily monitoring reports from the primary contractor and subcontractors, which should record onsite work that they performed; (3) updated project schedules for all phases of the contract; and (4) the University's inspectors' field reports. By not maintaining documentation that monitoring activities were performed, the University increases the risk of inconsistent contract monitoring and unmet contract requirements.

#### Ongoing Monitoring of the Basketball Arena Contract

Key activities included:

- Following and updating a work schedule set by the University.
- University and third-party inspections of the contractor's work.
- Required status meetings with the contractor, project architect, and the University.
- Project manager reviews of deliverables and change orders.
- Project manager and project architect reviews of payment requests.

Sources: The University's basketball arena contract and the University's *Facilities Management Project Delivery Manual*.

**Contract Payments.** The University did not effectively review manual overrides of interest calculations on late payments (see text box for information on payments and interest). As a result, the University owed additional amounts to the contractor for interest charges and did not comply with Texas Government Code, Section 2251.025. The University also did not consistently ensure that the contractor submitted all necessary documentation with payment requests, which increases the risk that the University paid for items not received or paid the incorrect amount for items. Testing results indicated that:

- 6 (17 percent) of 35 payments tested were not made promptly, and the University did not remit \$6,125 (70 percent) of the total \$8,713 in interest charges accrued.
- 3 (43 percent) of 7 contract payment samples tested did not have invoices to support all items in the payment request that the University received. Specifically, the University did not have support for \$1.5 million (12 percent) of the \$12.6 million in payments to the contractor.

#### Payments and Interest

Payments by governmental entities are considered overdue on the 31st day after the later of:

- (1) the date the goods are received;
- (2) the date service is completed; or
- (3) the date the invoice is received.

Interest accrues the day the payment becomes overdue.

Source: Texas Government Code, Sections 2251.021 and 2251.025.

**Contract Closeout.** The University does not have a contract closeout process documented in its *Contract Management Handbook*. As a result, although the contractor reached substantial completion of the project on December 1, 2018, as specified by the contract, the University and the contractor had not

mutually agreed upon a final completion date. The contract states that the contractor must achieve final completion within 30 calendar days after substantial completion of the contract or a mutually agreed-upon longer period of time between the contractor and the University. As of October 4, 2019, the University and the contractor had not agreed on a final completion date, which increases the risk that the University could not receive all contracted services timely.

#### Chemical Waste Contract

The University also performed certain monitoring activities to ensure compliance with the terms of the chemical waste contract. It had effective processes in place to ensure that the contractor performed the contracted services and that the contractor obtained insurance as required by the University. The University also employed a qualified contract manager to oversee the contract. Payments tested were allowable, appropriately reviewed and approved, and recorded consistently and without duplication.

However, similar to the basketball arena contract monitoring, the University did not consistently submit payments within required time frames and did not establish a contract closeout process for the chemical waste contract.

**Late Payments.** The University did not effectively review manual overrides of interest calculations on late payments, which resulted in the University not paying all invoices timely or consistently. By not including interest charges in late payments, the University risks owing additional amounts to the contractor. Testing results indicated that 43 (22 percent) of 194 payments were not paid timely, resulting in \$463 in total interest owed. For 32 (74 percent) of those 43 late payments, the University did not remit required interest charges totaling \$86.

**Contract Closeout.** The University does not have a contract closeout process documented in its *Contract Management Handbook*, which resulted in a purchase order remaining open after the end of the chemical waste contract. By not ensuring that all purchase orders for the contract are closed, the University could expend an improper amount for the services received.

#### Recommendations

The University should:

- Ensure that it properly documents contract monitoring activities.

- Pay contractors within required time frames established by statute to avoid incurring interest for late payments and develop a process to review late payment overrides.
- Ensure that all payments are properly supported.
- Implement policies and procedures for closing out contracts.

### **Management's Response**

*The University will modify Contract Management guidelines to provide guidance to campus areas on contract monitoring requirements and contract closeout procedures by June 30, 2020.*

*The Facilities Management Division will develop contract monitoring guidelines, documentation of contract monitoring guidelines, and guidelines for the required payment documentation and support and timely processing of payments by June 30, 2020.*

*The University will develop late payment interest guidelines and make system modifications so that overrides must be approved by Accounts Payable by June 30, 2020.*

## **The University Complied with Applicable Requirements Related to Contracting Policies, Procedures, and Training; However, It Should Enhance Compliance with Statutory Reporting Requirements**

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The University complied with applicable requirements related to contracting policies, procedures, and training; however, it should enhance compliance with contract reporting requirements.

Chapter 4-A

### **The University Complied with Applicable Requirements Related to Contracting Policies, Procedures, and Training**

**Chapter 4-A  
Rating:  
Low <sup>4</sup>**

The University implemented policies and procedures to address applicable contract-related requirements in Texas Education Code, Section 51.9337, and Texas Government Code, Chapter 2261, Sections 253, 254, and 256.

Texas Education Code, Section 51.9337. The University complied with Texas Education Code, Section 51.9337, which requires the University to satisfy certain requirements to acquire goods or services using the method that provides best value to the institution (see text box for more information on methods of acquisition). The University complied with these requirements by establishing a code of ethics, a *Contract Management Handbook*, contract delegation guidelines, training for officers and employees involved in the contracting process, policies and procedures governing conflicts of interest, internal audit protocols, and by obtaining its board of regents' approval.

#### **Acquisition of Goods and Services**

An institution of higher education may acquire goods or services by the method that provides the best value to the institution, including:

- Competitive bidding;
- Competitive sealed proposals;
- A catalogue purchase;
- A group purchasing program; or
- An open market contract.

Source: Texas Education Code, Section 51.9335.

Texas Government Code, Chapter 2261, Sections 253, 254, and 256. The University complied with the requirements of Texas Government Code, Chapter 2261, Sections 253, 254, and 256. The University established internet posting requirements for contracts, enhanced contract or performance monitoring procedures, developed and implemented contract reporting requirements for contracts exceeding \$1 million, established accountability and risk analysis procedures, and established a *Contract Management Handbook*.

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<sup>4</sup> The risk related to the issues discussed in Chapter 4-A is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

## The University Should Enhance Compliance with Statutory Reporting Requirements

**Chapter 4-B  
Rating:**  
Medium <sup>5</sup>

The University did not consistently report contracts to the Legislative Budget Board (LBB) in accordance with the General Appropriations Act (GAA) and Texas Government Code. Auditors analyzed all purchase orders for fiscal years 2018 and 2019 (through July 1, 2019) and reconciled applicable purchase orders greater than \$14,000 and \$50,000, which were the lowest thresholds for reporting to the LBB (see text box for more information), with the University's list of contracts reported to the LBB. The University tracked contracts by purchase orders, but did not have a reconciling process to verify that all required contracts were reported to the LBB.

Auditors identified the following University contracts that were not reported to the LBB as required:

- 74 State-funded University contracts totaling \$11.8 million.
- 102 locally funded University contracts totaling \$40.2 million.

Although the University has a process to report contracts to the LBB in accordance with the GAA and Texas Government Code, it should strengthen that process to ensure that all required information is reported completely, accurately, and within specified time frames. Not reporting accurate or timely contract information may prevent the LBB from effectively monitoring compliance with requirements and identifying risks.

### Required Reporting to the Legislative Budget Board

- All contracts exceeding \$50,000 must be reported within 30 days of award or modification.
- Major information system contracts exceeding \$100,000 must be reported not later than 10 days after award.
- Construction projects exceeding \$14,000 must be reported not later than 10 days after award.
- Professional or consulting services contracts exceeding \$14,000 must be reported not later than 10 days after award.
- Non-competitive contracts exceeding \$1,000,000 must be reported before the first payment but not later than 30 days after award.
- Emergency contracts exceeding \$1,000,000 must be reported within 48 hours after the first payment.
- Contracts exceeding \$10,000,000 must be reported before the first payment but not later than 30 days after award.

Source: Legislative Budget Board  
*Contract Reporting Guide* at  
[www.lbb.state.tx.us](http://www.lbb.state.tx.us).

<sup>5</sup> The risk related to the issues discussed in Chapter 4-B is rated as Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

## Recommendations

### The University should:

- Strengthen its reporting process to ensure that all contracts are accurately reported to the LBB according to statutory requirements.
- Create a process to reconcile purchase orders to contracts.

### Management's Response

*The University has modified its Finance system to allow better tracking of contracts, developed monitoring processes to ensure that all contracts are identified for reporting, and developed a reconciliation process to ensure that all contracts are reported.*

# Appendices

Appendix 1

## **Objective, Scope, and Methodology**

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### Objective

The objective of this audit was to determine whether the University of Houston (University) administered certain contract management functions for selected contracts in accordance with applicable requirements.

### Scope

The scope of this audit covered the University's:

- Contract-related processes for the basketball arena contract effective December 14, 2016, through August 9, 2019.
- Contract-related processes for the chemical waste contract effective August 19, 2014, through August 9, 2019.
- Procurement process for the consulting services contract effective February 28, 2017.

### Methodology

The audit methodology included collecting and reviewing administration, planning, procurement, formation, and monitoring documentation for the chemical waste, basketball arena, and consulting services contracts. Activities included conducting interviews with University staff; reviewing applicable statutes, rules, and University policies and procedures; and performing selected tests and procedures.

### Data Reliability and Completeness

Auditors reviewed contractor payment data from the University's accounting application (PeopleSoft) from the contract inception dates through August 9, 2019. Auditors' procedures to review that payment data for completeness included (1) generating queries for the purchase orders associated with the contracts; (2) observing the data extract for the queries; (3) reviewing the parameters used to extract the data; and (4) comparing the results of each query. In addition, auditors tested the segregation of duties for payments in PeopleSoft. Auditors determined that the data was sufficiently reliable for the purposes of this audit.

### **Sampling Methodology**

Auditors selected nonstatistical samples of payments related to the basketball arena and chemical waste contracts primarily through random sampling. In some cases, auditors selected additional samples of those items for testing based on risk. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

Auditors selected non-random samples of monitoring activities for testing for the basketball arena contract. Those sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

To test whether the University was reporting contracts to the Legislative Budget Board as required, auditors performed data analysis on the populations of purchase orders and contracts.

Information collected and reviewed included the following:

- University contract population.
- University planning, procurement, formation, monitoring, and oversight information including requests for qualifications, requests for proposal, solicitation and bid documentation, evaluation criteria and documentation, approvals, contract documents, and related supporting documentation.
- University personnel training records, conflict of interest and nepotism disclosure statements, and nondisclosure statements.
- University payment documentation, including contractor payment requests, approvals, and other supporting documentation.

Procedures and tests conducted included the following:

- Interviewed University staff.
- Reviewed the University's contracting policies and procedures for compliance with applicable state requirements.
- Determined whether the University's employees who were authorized to execute contracts met training and certification requirements.
- Reviewed documentation to determine whether the University performed appropriate contract planning, procurement, formation, and monitoring procedures.

- Reviewed applicable conflict of interest and nepotism disclosure statements and nondisclosure statements.
- Tested whether the University reported contract notifications to the Legislative Budget Board accurately and within the required time frames.
- Tested contract payments for accuracy, proper approvals, and compliance with applicable requirements.
- Tested amendments and approved change orders for supporting documentation and proper approvals.

Criteria used included the following:

- Texas Education Code, Chapter 51.
- Texas Government Code, Chapters 572, 2155, 2161, 2251 through 2254, and 2260 through 2262.
- University policies and procedures, manuals, and monitoring tools.
- *The University's Contract Management Handbook.*
- *The University's Facilities Management Project Delivery Manual.*
- Texas Facilities Commissions' *Uniform General Conditions for Construction Contracts*, 2015 version.
- Texas Administrative Code, Chapters 20 and 202.
- Department of Information Resources' *Security Controls Catalog*, version 1.3.
- Contract terms in the audited contracts.
- The General Appropriations Act.
- *State of Texas Procurement Manual*, 2012 version.
- *State of Texas Procurement and Contract Management Guide*, version 1.1.
- *The Legislative Budget Board's Contract Reporting Guide.*

## Project Information

Audit fieldwork was conducted from June 2019 through December 2019. We conducted this performance audit in accordance with generally accepted government auditing standards.<sup>6</sup> Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The following members of the State Auditor's staff performed the audit:

- Jerod Heine, MBA (Project Manager)
- Arnton Gray (Assistant Project Manager)
- Brady Bennett, MBA, CFE, CGAP
- Cody Bogan
- Justin Brister
- Jennifer Grant
- Mary Beth Schwing, CPA, CFE, CGMA
- Dana Musgrave, MBA (Quality Control Reviewer)
- Cesar Saldivar, CFE, CGAP (Audit Manager)

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<sup>6</sup> United States Government Accountability Office's *Government Auditing Standards*, 2011 Revision.

## Issue Rating Classifications and Descriptions

Auditors used professional judgment and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Copies of this report have been distributed to the following:

### Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Dennis Bonnen, Speaker of the House, Joint Chair

The Honorable Jane Nelson, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable Dustin Burrows, House Ways and Means Committee

### Office of the Governor

The Honorable Greg Abbott, Governor

### University of Houston

#### Members of the University of Houston System Board of Regents

Mr. Tilman J. Fertitta, Chairman

Mr. Gerald W. McElvy, Vice Chairman

Ms. Beth Madison, Secretary

Mr. Durga D. Agrawal

Mr. Doug H. Brooks

Mr. Alonzo Cantu

Mr. Steve I. Chazen

Mr. John A. McCall Jr.

Mr. Jack B. Moore

Mr. John D. Fields, Student Regent

Dr. Renu Khator, Chancellor and President



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