

Fiscal Management Division
Expenditure Audit Section
Auditor: Raymond McClintock

Audit Report # 721-13-01
January 8, 2014

Post-Payment Audit of The University of Texas at Austin



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EXECUTIVE SUMMARY

Audit scope

A sample of the University of Texas at Austin (UTEXAS) payroll, purchase and travel transactions that processed through the Uniform Statewide Accounting System (USAS) during the period beginning Sept. 1, 2011, through Aug. 31, 2012, was audited to determine compliance with applicable state laws. The report includes a projection of the errors to estimate the amount of improperly paid transactions in the population.

The audited agency or institution of higher education receives appendices with the full report that may include a list of the identified errors and an errors projection to estimate the amount of improperly paid transactions. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

The audit provides a reasonable basis for the findings set forth in this report. UTEXAS should implement the recommendations listed in the Detailed Findings of this report. It is UTEXAS' responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Texas Comptroller of Public Accounts (Comptroller's office) may take the actions set forth in Texas Government Code Annotated, Section 403.071(h) (Vernon 2013), to ensure that UTEXAS' documents comply in the future. UTEXAS must ensure that the findings discussed in this report are resolved.

Texas law requires the Comptroller's office to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

Payroll transactions and payroll deductions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), [Texas Payroll/Personnel Resource](#) and other pertinent statutes.

- No issues were identified.

A limited sample of voluntary contributions was also reviewed.

- No issues were identified.

Purchase transactions

Purchase transactions were audited for compliance with the GAA, [eXpendit](#) and other pertinent statutes.

The audit identified:

- Missing statutory authority for purchase.
- Purchase order created after invoice.
- Missing/Incomplete documentation.
- Freight not on purchase order.

Travel transactions

Travel transactions were audited for compliance with the GAA, [Textravel](#) and other pertinent statutes.

- No issues were identified.

Payment card transactions

We reviewed payment card transactions for compliance with the GAA, [eXpendit](#) and other pertinent statutes.

The audit identified:

- Improper payment of tax/surcharge.
- Missing and insufficient documentation.

Prompt pay and payment scheduling

We reviewed UTEXAS' compliance with the prompt payment law and scheduling rules.

The audit identified:

- Prompt payment issues.
- Payment scheduling issues.

During the current audit period, UTEXAS paid \$3,324.66 in prompt payment interest.

Grants & teacher retirement reimbursements

Grant and teacher retirement reimbursements were audited for compliance with the GAA, [eXpendit](#) and other pertinent statutes.

- No issues were identified.

The review of these payments did not include an investigation of UTEXAS' procedures for awarding grants or for the distribution of retirement reimbursements; therefore, we are not offering an opinion on those procedures.

Library book & computer programming transactions

We reviewed library book and computer programming transactions for compliance with the GAA, [eXpendit](#) and other pertinent statutes.

- No issues were identified.

Internal control structure

As a routine part of our security review, we reviewed UTEXAS' compliance with the Confidential Treatment of Information Acknowledgement (CTIA) form. When a new user needs access to the Comptroller statewide financial systems, the first step that the agency's security coordinator takes is to have the person read and sign the CTIA form. A reviewing official also signs the agreement, which the agency's security coordinator keeps on file for as long as the user has access to the systems, plus five years.

- UTEXAS did not obtain a signed CTIA form for two employees in a timely manner.

Fixed assets

The audit included a limited number of fixed assets acquired by UTEXAS during the audit period to verify existence of the assets.

- All of the assets tested were tagged and in their intended location.

Prior post-payment audit and current audit recurring errors

A prior post-payment audit of UTEXAS' payroll, purchase and travel transactions was concluded on March 25, 2009.

The following are recurring audit issues:

- Purchase order created after invoice.
- Missing statutory authority for purchase.
- Missing documentation.
- Payments past the prompt payment deadline and payments not scheduled.
- Improper payment of sales tax.

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DETAILED FINDINGS — PURCHASE

Missing Statutory Authority for Purchase

Finding

During the fieldwork, we identified three payment transactions where UTEXAS did not have the legal authority for the purchases.

The transactions (one purchase and two payment cards) were used to purchase promotional items (t-shirts), drinks (water and coffee) and food. The purchase of drinks and food were made with the payment card. The payment for the purchase of promotional items was processed through the purchasing department. UTEXAS conducted research on all purchases and as a result, UTEXAS agrees with our findings.

UTEXAS stated that the policy and regulations for the purchase of water and food with state funds had been communicated to the departments; however, an oversight was made on these purchases. The intention was to have these purchased with local funds. UTEXAS could not state any implied authority for the items and agreed with the finding.

The Attorney General has said that the Texas Constitution prohibits a state agency from purchasing food, coffee, cream, sugar and similar items that the employees of or visitors to the state agency would consume. See Texas Attorney General Opinion No. C-557 (1965).

According to [Statutory Authority for Purchases](#) in eXpendit on FMX, a state agency may purchase a good or service only if the agency has specific or implied statutory authority for the purchase. A state agency has implied statutory authority to purchase a good or service only if it is necessary for the agency to fulfill its specific statutory duties.

Recommendation/Requirement

UTEXAS must determine whether an item has a specific state purpose before authorizing payment. UTEXAS should request reimbursement for these purchases unless it is not cost effective to do so.

UTEXAS Response

UTEXAS will review the current payment card procedures for clarity regarding items that can and cannot be purchased. We will also make a presentation to UTEXAS Business Office's Committee to inform them of this finding. Business officers are responsible for assuring that payment card procedures are followed in their areas of responsibility. This finding will also be reviewed with the Purchasing staff to assure that all purchases are documented per the statutory authority for each award.

UTEXAS in mid-2013 implemented an upgrade to its purchasing system which requires the purchasing buyer to enter details regarding the solicitation method and reason for award. UTEXAS does not feel it to be cost effective to pursue reimbursement for these expenses.

Purchase Order Created After Invoice

Finding

We identified three instances where UTEXAS did not create a purchase order until after receipt of the invoice. Without a purchase agreement with the vendor at the time the goods were ordered, it was difficult for UTEXAS to ensure that it was not overcharged or billed for goods or services beyond those UTEXAS had agreed to purchase. UTEXAS indicated that these findings were due to an oversight.

According to 34 Texas Administrative Code, Section 5.51(c)(1)(D) (2013), it is the responsibility of the state agency and its officers to “ensure for each purchase document, the agency maintains necessary documentation for proving that each payment resulting from the document is legal, proper, and fiscally responsible.”

Recommendation/Requirement

While a formal or automated purchase agreement is not required, UTEXAS must ensure that documentation of the purchase agreement is prepared when ordering goods or services from the vendor. Once UTEXAS has made a final approved agreement with the vendor, UTEXAS may not pay any amount in excess of the agreed upon amount unless the agreement is amended due to the vendor providing a new benefit, i.e., consideration, to UTEXAS.

UTEXAS Response

UTEXAS' Handbook of Business Procedures states that “Purchase orders must be issued prior to the shipment of a product or the delivery of a service. Vendors are not authorized to commence work prior to the receipt of an authorized purchase order. Invoices for goods or services provided without an authorized purchase order require management review and approval prior to payment. UTEXAS is not obligated to pay invoices for goods and services that have not been properly authorized.” UTEXAS has procedures in place for Accounts Payable staff to verify that the invoice/service date is after the purchase order date and refer exceptions to management for approval.

UTEXAS will also make a presentation to UTEXAS Business Officer's Committee to inform them of this finding. Business officers are responsible for assuring that all purchasing procedures are followed in their areas of responsibility.

Missing/Incomplete Documentation

Finding

We identified one transaction where the purchase order (PO) was missing. UTEXAS retained the consulting services of a vendor, but documentation verifying the continuing services was not provided. Without proper documentation, we could not determine whether the information entered into USAS was an accurate reflection of the purchases made.

In another transaction, the PO was incomplete. UTEXAS exercised the option to renew the current contract; however, the PO did not include an amount.

Proper documentation must be maintained to verify that the payments are valid as well as to maintain a proper audit trail. In both instances, UTEXAS stated that this was an oversight.

While a formal PO is not always necessary, documentation of the original agreement should be retained so that a comparison of the invoice and the receiving report can be made prior to payment. It is the responsibility of a state agency and its officers and employees to “ensure for each purchase document, the agency maintains necessary documentation for proving that each payment resulting from the document is legal, proper, and fiscally responsible.” See 34 Texas Administrative Code, Section 5.51(c)(1)(D) (2013).

Supporting documentation must be made available to the Comptroller in the manner required by the Comptroller’s office. The types of supporting documentation that the Comptroller’s office may require include purchase orders, requisitions, contracts, invoices and receipts. See 34 Texas Administrative Code, Section 5.51(e)(2)-(3) (2013).

Recommendation/Requirement

In the future, UTEXAS must ensure that no payment is made without sufficient supporting documentation. UTEXAS must also ensure that it creates and maintains supporting documentation for audit review. UTEXAS should continue to review and update its procedures for maintaining proper supporting documentation for all purchases.

UTEXAS Response

UTEXAS will assure that current procedures elaborate on the type of supporting documentation that may be required for audit purposes. UTEXAS will also make a presentation to UTEXAS Business Officer’s Committee to inform them of this finding. Business officers are responsible for assuring that payment card procedures are followed in their areas of responsibility.

Freight Not on Purchase Order

Finding

We identified a transaction where freight was paid even though it was not included on the original PO. Freight charges should not be paid by UTEXAS if not specifically identified on the original PO. UTEXAS stated that this occurred as a result of an oversight by UTEXAS.

A PO is a contract entered into by the state and a vendor. UTEXAS may pay only the contracted amount as shown on the PO. If freight charges are not on the PO then the charges are not owed by UTEXAS and should not be paid.

Recommendation/Requirement

UTEXAS should document freight terms on each PO. In situations where the final amount of freight cannot be determined, estimates may be used. In those instances, UTEXAS should document the limit that may not be exceeded for any freight amount. If it is determined that the upper limit for a freight amount will be exceeded, the vendor should obtain approval for the higher amount. Any approvals for higher amounts should be documented prior to receiving the invoice.

UTEXAS Response

UTEXAS currently permits payment up to 10% over estimated freight charges on a purchase order and requires either a change order or management approval prior to payment. UTEXAS will review this finding with the Purchasing staff, Accounts Payable staff and UTEXAS Business Officer's Committee to make sure all individuals handling purchase orders are aware of proper procedures for handling freight-related charges.

Comptroller's Response

The Comptroller's office does not recognize UTEXAS' internal 10% overage rule as justification for not identifying the freight amount on the PO. All items and/or services should be itemized on the PO or purchase agreement. UTEXAS should review their policy regarding freight charges and make necessary changes so that freight charges are included on the PO.

Payments Past the Prompt Payment Deadline and Payments Not Scheduled

Finding

According to the prompt payment law, Texas Government Code Annotated, Section 2251.021 (a), a governmental entity's payment is overdue on the 31st day after the later of:

- the date the governmental entity receives the goods under the contract;
- the date the performance of the service under the contract is completed; or
- the date the governmental entity receives an invoice for the goods or service.

The Comptroller's office automatically computes any interest due under the prompt payment law. A state agency is liable for interest that accrues on an overdue payment and shall pay the interest from funds appropriated or otherwise available to the agency with the net amount for the goods or services. See Texas Government Code Annotated, Section 2251.026(b)-(c), (e)-(f) (Vernon 2008). During the audit period, UTEXAS paid \$3,324.66 in late payment interest. We identified two transactions that were paid late without paying interest because incorrect dates were entered into USAS. The amount of interest not paid was \$5.47.

Texas Government Code Annotated, Section 2155.382(d) (Vernon 2008) authorizes the Comptroller's office to allow or require state agencies to schedule payments that the Comptroller's office will make to a vendor. The Comptroller's office must prescribe the circumstances under which scheduling of payments is allowed or required; however, the Comptroller's office must require scheduling of payments when it is advantageous to the state. Id.

UTEXAS had 20 transactions that were not scheduled resulting in an estimated amount of interest lost to the State Treasury of \$748.82 and four transactions that were not scheduled resulting in a minimal loss of interest. These were oversights by UTEXAS.

Recommendation/Requirement

UTEXAS must ensure that its payment processing staff are adequately trained in determining payment due dates so that the proper due dates are entered in USAS and payments can be processed as described in the Comptroller's [Prompt Payment](#) section of eXpendit on FMX. To minimize the loss of earned interest to the state treasury, UTEXAS must schedule all payments greater than \$5,000 for the latest possible distribution.

UTEXAS Response

UTEXAS will continue to educate the departments on how to properly determine due dates through our on-going training sessions. Unless other provisions warrant, UTEXAS strives to schedule all payments over \$5,000 for the latest possible distribution. However, payment card transactions will continue to be scheduled to ensure that payments are credited before the cycle end date to avoid potential late fees and administrative costs, which would be significantly higher than interest lost.

DETAILED FINDINGS — PAYMENT CARD

Improper Payment of Tax/Surcharge

Finding

During the audit, we identified two payment card transactions in which UTEXAS improperly paid sales tax to the vendor. We also identified three vouchers where UTEXAS improperly paid fees in connection with wireless communications. These payments were made due to an oversight by UTEXAS.

The state of Texas, its incorporated agencies and instrumentalities are exempt from sales taxes. See 34 Texas Administrative Code, Section 3.322(c)(4)(2013). State and all its agencies are exempt from certain fees imposed. The purchase, lease or rental of a taxable item to an exempt organization is exempt from tax when the organization or an authorized agent pays for the taxable item and provides the vendor with tax exemption certificate.

See [Telecommunication Fees and Surcharges](#) under Pricing for Department of Information Resources' contract.

Recommendation/Requirement

University employees and its authorized agents must present vendors with tax exemption certificates before any purchases are made. UTEXAS must thoroughly examine invoices or receipts submitted by vendors to ensure that it does not pay tax or surcharges for which it is not liable. UTEXAS should contact and request a refund from the vendor unless UTEXAS determines it is not cost effective to do so.

UTEXAS Response

UTEXAS will assure that payment card holders are aware of the requirement that taxes are not paid on card transactions. The average payment card transaction is \$219.71 and the amount of inadvertent payment of sales tax is low. The cost of pursuing refunds from vendors is not deemed to be cost effective. UTEXAS has taken action that controls are in place with high volume vendors such as Amazon.com and OfficeMax, ensuring that transactions with these vendors will be treated as tax exempt.

UTEXAS will also make a presentation to UTEXAS Business Officer's Committee to inform them of this finding. Business officers are responsible for assuring that payment card procedures are followed in their areas of responsibility. UTEXAS will advise the Accounts Payable staff to avoid paying improper fees in connection with wireless communication invoices.

Missing/Insufficient Documentation

Finding

We identified several payment card transactions that were either missing documentation or the documentation was insufficient to support the payment.

Two of the transactions lacked documentation needed to verify the validity of the payment because of a home address being used for the delivery rather than UTEXAS' address. The items were delivered to the home address of staff members and UTEXAS could not provide an explanation or documentation of why the delivery was not made to UTEXAS. Because of insufficient documentation, we were unable to determine if the purchase was used for University business.

We also identified a payment card transaction where UTEXAS could not provide an invoice for the payment and another where UTEXAS paid for images to be reproduced; however, UTEXAS failed to produce copies of those images that were printed or reproduced.

We also identified 14 payment card transactions that were missing verification of training attended and 28 transactions that were missing receiving documentation to verify the receipt of the goods purchased. To verify the paid training, we requested from UTEXAS by email some form of documentation that the course had been attended. UTEXAS was not able to provide the requested documentation.

Without proper documentation, we could not determine whether the information entered into USAS was an accurate reflection of the intended purchases made. Proper documentation must be maintained to verify that the payments are valid as well as to maintain a proper audit trail.

As provided by 34 Texas Administrative Code, Section 5.51(c) (1) (D) (2013), it is the responsibility of a state agency and its officers and employees to “ensure for each purchase document, the agency maintains necessary documentation for proving that each payment resulting from the document is legal, proper, and fiscally responsible.”

Supporting documentation must be made available to the Comptroller's office in the manner required by the Comptroller's office. The types of supporting documentation the Comptroller's office may require include purchase orders, requisitions, contracts, invoices and receipts. See 34 Texas Administrative Code, Section 5.51(e)(2)-(3) (2013).

Recommendation/Requirement

Supporting documentation for a purchase document must be made available in an audit to justify the validity of the payment. UTEXAS must ensure that it has adequate supporting documentation for all expenditures prior to processing the payment.

UTEXAS Response

UTEXAS will review this finding with the Purchasing staff and UTEXAS Business Officer's Committee to make sure that all individuals handling purchases and contacts include the proper documentation in the transaction. Business officers are responsible for assuring that payment card procedures are followed in their areas of responsibility.

DETAILED FINDINGS — SECURITY

Confidential Treatment of Information Acknowledgement Form Not Completed Timely

Finding

As a routine part of our security review, we reviewed UTEXAS' compliance with the requirement that all agency users of the Comptroller's statewide financial systems complete a confidential treatment of information acknowledgement (CTIA) form. For employees and contractors who require access to the Comptroller's statewide financial systems, the agency's security coordinators must have a signed CTIA form from every user on file at their agency prior to granting access to the systems. A reviewing official also must sign the agreement, which the agency's security coordinator keeps on file for as long as the user has access to the systems plus five years. Two employees for UTEXAS signed this form after their earliest connection date to the systems. UTEXAS' procedures require the signature prior to access, but were unable to locate two of those requested. As a result, UTEXAS immediately had the employees sign new forms.

Recommendation/Requirement

UTEXAS must ensure the CTIA forms are completed for its employees before granting them access to Comptroller systems.

UTEXAS Response

Most UTEXAS employees never need USAS/state application access. However, when they do it is our procedure to have a signed and reviewed CTIA in hand before requesting Comptroller system access. We concur with the state that the forms for two employees were signed well after their setup requests. Both employees in question have been with UTEXAS for over 13 years and the original CTIA paperwork could not be located.