

Fiscal Management Division  
Expenditure Audit Section  
Auditor: Randy Taylor

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# Post-Payment Audit of Lamar Institute of Technology



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# Table of Contents

## Executive Summary

Audit scope .....	i
Payroll transactions .....	i
Purchase transactions .....	i
Travel transactions .....	i
Fixed assets .....	ii
Security .....	ii
Internal control structure .....	ii
Direct deposit authorization forms .....	iii
Prior post-payment audit and current audit recurring errors .....	iii

## Detailed Findings — Purchase

Purchase Orders Created After Invoice .....	1
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## Detailed Findings — Expenditure Approvals

Employee Retained Ability and Security to Expend Funds After Termination .....	2
Control Weakness Over Expenditure Processing .....	4

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# EXECUTIVE SUMMARY

## Audit scope

We audited a sample of the Lamar Institute of Technology (Institute) payroll, purchase and travel transactions that processed through the Uniform Statewide Accounting System (USAS) during the period beginning March 1, 2013, through Feb. 28, 2014, to determine compliance with applicable state laws.

The Institute received appendices with the full report that included a list of identified errors. 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. The Institute should implement the recommendations listed in the Detailed Findings of this report. It is the Institute's 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 the Institute's documents comply in the future. The Institute 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

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

- No issues were identified.

## Purchase transactions

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

The audit identified:

- Purchase orders (POs) created after invoice.

## Travel transactions

The Institute's only travel transaction paid using appropriated funds was audited for compliance with the GAA, [Textravel](#) and other pertinent statutes.

- No issues were identified.

### Fixed assets

The audit included a limited number of fixed assets acquired by expenditures during our audit period to test for accurate reporting in the State Property Accounting (SPA) System and to verify existence of the assets.

The audit identified:

- All assets tested were in their intended location and properly recorded in SPA.
- The Institute reported 126 missing assets with a net book value of \$116,813.56 during the audit period. The Institute explained that it miscoded the assets with book value as missing, when instead these assets were donated to a local school district and should be coded to another disposal method. The Institute acknowledged the error and changed the coding for the disposal method for these assets. The new report has 116 assets with zero book value. According to the Institute, some of the 116 assets were discovered to be missing in prior years but were not reported to be removed from SPA in a timely manner.

### Security

The audit included a security review that entailed identifying any of Institute's employees with security in USAS or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner.

The review identified:

- One employee who retained security in USAS after termination and remained on the voucher signature card after termination.

### Internal control structure

The Institute's internal control structure was reviewed. The review was limited to obtaining an understanding of the Institute's controls sufficient to plan the audit and did not include tests of control policies and procedures.

The audit identified an employee who:

- Has the ability to process expenditures without oversight.
- Can process and release payrolls without oversight.

## Direct deposit authorization forms

A review was conducted of the Institute's procedure to comply with the federal mandate to properly identify and handle payments involving the movement of funds internationally.

The audit identified:

- Five vendors who were set up using an outdated direct deposit form.

The forms do not adhere to the National Automated Clearing House Association rules requiring the identification of a direct deposit payment if it is an International Automated Clearing House transaction.

## Prior post-payment audit and current audit recurring errors

A prior post-payment audit of the Institute's payroll, purchase and travel transactions was concluded on March 22, 2011.

During the current audit, the following recurring errors were identified:

- PO or change notice created after invoice.
- Control weakness over expenditure processing.

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## DETAILED FINDINGS — PURCHASE

### Purchase Orders Created After Invoice

#### Finding

We identified two instances where the Institute did not create a purchase order (PO) until after receipt of the invoice. Without a purchase agreement with the vendor at the time the goods were ordered, it was difficult for the Institute to ensure that it was not overcharged or billed for goods or services beyond those the Institute had agreed to purchase. The Institute has procedures for obtaining a PO prior to making a purchase but did not follow the procedures in these instances.

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, the Institute must ensure that documentation of the purchase agreement is prepared when ordering goods or services from the vendor. Once the Institute has made a final approved agreement with the vendor, the Institute 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 the Institute.

#### Institute Response

*Management concurs. Lamar Institute of Technology will continue to provide training to all departments to ensure compliance with purchasing policies and procedures. This includes all departments who make purchase requests on campus. The Finance department will monitor throughout the fiscal year.*

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## DETAILED FINDINGS — EXPENDITURE APPROVALS

### Employee Retained Ability and Security to Expend Funds After Termination

#### Finding

During the audit period, the Institute failed to notify the Comptroller's office in a timely manner about the termination of one employee designated by the Institute to approve its expenditures. The employee remained listed on the Institute's voucher signature cards for 12 days after termination. The Institute's notification was seven days delinquent. The former employee could have approved paper vouchers submitted to the Comptroller's office during that time. Any payment produced by a paper voucher that was approved by the terminated employee would have constituted an unapproved expenditure. In addition, the same employee retained her USAS security for 12 days after termination, allowing the employee to approve electronic vouchers during that time. According to the Institute, the employee remained on the signature cards and retained USAS security due to an oversight.

Whenever a designated employee terminates employment with an agency, the Comptroller's office must receive notification of the employee's termination no later than the fifth day after the effective date of the employee's termination. See 34 Texas Administrative Code, Section 5.61 (2013). Any officer or employee may send the Comptroller's office that notification. See Section 5.61(k)(3)(B). Additionally, Section 5.61 does not specify how the Comptroller's office is to be notified about designated employees' terminations. Therefore, the Comptroller's office will accept e-mails, faxes, letters, memos or other writings as long as the writings indicate that a designated employee has terminated employment and the notification specifies the effective date of the employee's termination.

For an employee whose authority to approve an agency's expenditures is revoked for any reason, the employee's USAS security profile must be changed no later than the effective date of the revocation or termination to prevent the employee from executing electronic approvals for the agency. See 34 Texas Administrative Code, Section 5.61(k)(5)(A)-(B) (2013).

#### Recommendation/Requirement

The Institute must ensure compliance with the preceding requirements.

The Institute must also ensure that the person responsible for sending these notifications to the Comptroller's office:

- Is aware of the designated employee's termination on or before the date the termination becomes effective and
- Follows through with the Comptroller's office to ensure the receipt of the notification and that the revocation of the employee's security occurred.

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## Institute Response

*Management concurs. The Institute will ensure that computer services security is notified of the termination of an employee to be able to notify the Comptroller's office within the time requirements above. This will be completed by computer services security and the Vice President of Finance and Operations and monitored throughout the fiscal year.*

## Control Weakness Over Expenditure Processing

### Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations that the Institute placed on its accounting staff members' abilities to process expenditures. We reviewed the Institute's security in USAS, the Texas Identification Number System (TINS) and voucher signature cards that was in effect on March 18, 2014. We did not review or test any internal or compensating controls that the Institute may have relating to USAS or TINS security or internal transaction approvals.

We identified one employee with multiple security capabilities. The employee had the security to process and release payments through USAS and process and release payrolls without electronic oversight. The Institute explained that it has a small accounting staff and multiple security is necessary, with processing controls in place. The Institute received a schedule of this finding during fieldwork.

To reduce risks to state funds, agencies should have controls over expenditure processing that segregates each accounting task to the greatest extent practical. Ideally, no individual should be able to enter or alter and then release payments or other accounting transactions within the statewide financial systems without another person's involvement.

We ran a report to determine whether any of the Institute's payment documents processed through USAS during the audit period because of the action of only one person. We found no documents that were either entered and approved, or altered and approved, by the same person without another person's electronic oversight.

### Recommendation/Requirement

The Institute should review the controls over expenditure processing and segregate each task to the extent possible to ensure that no individual is able to process payments without oversight.

The Institute may request that a preventative control be enforced for all of its transactions in USAS. If an agency requests the control, an edit will prevent the release of a document that the same user entered or altered, or warn when this is about to occur. See [USAS Accounting and Payment Control \(FPP B.005\)](#).

### Institute Response

*Management concurs. Lamar Institute of Technology will request that a preventative control be enforced for all of its transactions in USAS. This will be completed by computer services security and the Vice President of Finance and Operations. This is estimated to be completed by July 31, 2014.*