

Fiscal Management Division
Expenditure Audit Section
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Post-Payment Audit of Texas Southern University



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EXECUTIVE SUMMARY

Audit scope

We audited a sample of the Texas Southern University (University) 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 University received appendices with the full report that included a list of the 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 University should implement the recommendations listed in the Detailed Findings of this report. It is the University'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 University's documents comply in the future. The University 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 deductions

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

The audit identified:

- Incorrect longevity payment amounts.
- Overpayment of salary.

A limited sample of voluntary contributions was also audited.

- No issues were identified.

Purchase transactions

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

The audit identified:

- Purchase order (PO) created after invoice.
- Prompt payment issues.

Book and reference material transactions

We performed a limited review of the University's expenditures for books and reference material.

The audit identified:

- Freight not on PO.

Payment card transactions

The payment card transactions were audited for compliance with the GAA, eXpendit, and other pertinent statutes.

The audit identified:

- Missing statutory authority for purchase.

Grant transactions

We conducted a limited review of the University's transactions relating to grant payments. This review consisted of verifying that the payments did not exceed the authorized amounts. The review did not include an investigation of the University's procedures for awarding the grant or monitoring payments made to grantees; therefore, we are not offering an opinion on those procedures.

- No issues were identified.

Travel transactions

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

- No issues were identified.

Fixed assets

The audit included a limited review of 11 fixed assets acquired by expenditures during our audit period to test for accurate reporting and to verify existence of the asset. During the audit period, the University reported 61 missing assets and one stolen asset with a net book value totaling \$1,631.24. The asset reported as stolen was supported by a police report.

- No issues were identified.

Internal control structure

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

The audit identified:

- One employee who could adjust payment instructions in the Texas Identification Number System (TINS) and approve paper vouchers.

Security

The audit included a security review to identify any of the University'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 the ability to expend funds in USAS after termination.

Direct deposit authorization forms

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

The audit identified:

- Two vendors who were set up using the correct direct deposit form; however, the form was not completed properly. The form did not indicate whether or not the direct deposit payment was an International Automated Clearing House transaction as required by the National Automated Clearing House Association rules.

Prior post-payment audit and current audit recurring errors

A prior post-payment audit of the University's payroll, purchase and travel transactions was concluded on Aug. 24, 2010.

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

- Incorrect longevity pay amount.
- Prompt payment issues.
- Employee retained ability to expend funds after termination.
- Control weakness over expenditure processing.

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DETAILED FINDINGS — PAYROLL

Incorrect Longevity Pay Amount

Finding

In our audit of the payroll transactions, we identified three faculty staff members who received longevity pay in error because they were in full-time academic positions. Faculty employees in full-time academic positions at an institution of higher education are not eligible for longevity pay. This resulted in overpayments of longevity pay totaling \$8,390.02. According to the University, it failed to update the employee descriptive job data in its internal system.

Employees ineligible for longevity pay include:

- Members of the legislature
- Individuals elected to public office
- Independent contractors or employees of an independent contractor
- Temporary workers
- Officers or employees of public junior colleges
- Academic employees of institutions of higher education
- Employees who retired from state employment on or after June 1, 2005, and who receive an annuity based wholly or partly on service or state employment. See Texas Government Code, Section 659.042

The schedule of incorrect longevity payments is not included with this report due to confidentiality.

Recommendation/Requirement

The University should consider recovering the overpayments in accordance with Chapter 666, Texas Government Code. The University must ensure that its internal reporting procedures include quality control measures that will detect any incorrect payments of longevity to a state employee.

University Response

The University will review its controls and procedures prior to Human Resources setup of faculty employees to ensure that longevity is not included as part of their salary according to Texas Government Code, Section 659.042.

Overpayment of Salary

Finding

An employee's estate was overpaid salary for the final month's regular salary payment. The leave balance was calculated incorrectly, resulting in the estate being overpaid by eight hours for the final month's payroll. The employee passed away on April 8, 2013, and should have been paid for 48 hours. The University paid the employee for 56 hours which resulted in an overpayment of salary in the amount of \$168.07. The additional eight hours paid was due to a data entry error.

The payroll schedules are not included with this report due to confidentiality issues.

Recommendation/Requirement

The University must review its controls and personnel records to ensure that when calculating partial payment that the correct number of hours are paid. The University should consider recovering the overpayment in accordance with Chapter 666, Texas Government Code.

University Response

The University will review its current controls and procedures to ensure that when partial payments are calculated, we pay based on the correct number of hours. In addition, the University will ensure that overpayments are recovered in accordance with Chapter 666, Texas Government Code.

DETAILED FINDINGS — PURCHASE

Purchase Order Created After Invoice

Finding

We identified two instances where the PO was not created until after the vendor invoiced the University. The University's procedures require that staff create a purchase requisition and PO prior to obtaining goods and services, but this procedure was not followed in these instances.

Without issuing the PO and documenting it with the vendor prior to ordering the goods, it becomes difficult for the University to ensure that it is not overcharged or billed for goods or services beyond those the University had agreed to purchase.

It is the general 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).

Recommendation/Requirement

The University must ensure its procedures are followed. While a formal purchase order is not required, the University must ensure that documentation of the purchase agreement is prepared at the time the University orders the goods or services.

University Response

The University concurs with the recommendation. University policy prohibits the creation of a purchase order after a commodity has been received. Procurement Services will make presentations to Department Business Administrators to educate them on the policy. In addition, the subject matter will be discussed during the annual Procurement Services training.

Prompt Payment Issues

Finding

According to the prompt payment law, Texas Government Code, Section 2251.021 (a) (Vernon 2008), a governmental entity's payment is overdue on the 31st day after the latest 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 services.

The Comptroller's office automatically computes any interest due under the prompt payment law. A state agency is liable for any 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 (Vernon 2008).

During the audit period, the University paid \$2,831.31 in prompt payment interest. We identified 26 purchase transactions that did not pay interest when due. We also identified four purchase transactions where interest was overpaid to the vendors and four transactions where interest was underpaid. According to the University, a systematic error occurred within the date field when the agency converted to another system. The University also stated that the error has been corrected.

Recommendation/Requirement

The University must review its procedures to ensure that payment information is submitted for processing in a timely manner to avoid incurring interest liabilities. The University must also ensure that the correction to the systematic error is effective.

University Response

The University concurs with the recommendation. The University has implemented procedures and training to avoid future oversights and to ensure code compliance. Unless other provisions warrant, the University will schedule all payments over \$5,000 for the latest possible distribution.

DETAILED FINDINGS — BOOKS AND REFERENCE MATERIAL

Freight Not on Purchase Order

Finding

We identified four transactions where a freight charge was paid even though it was not included on the original PO. Freight charges not specifically identified on the original PO should not be paid by the University. The University stated that the freight is normally included with the cost of the product. However, it will include a separate line for freight for future purchases.

A PO is a contract entered into by the state and a vendor. The University 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 the University and should not be paid.

Recommendation/Requirement

The University should document all freight terms on each PO. In situations where the final amount of freight cannot be determined, estimates may be used. In those instances, the University 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.

University Response

The University concurs with the recommendation. Procurement Services will provide training to Department Business Administrators to educate them on appropriate freight cost allocation. Training will include directives to the supplier that require all shipments to be FOB Destination or provide an estimated/actual freight cost allocation.

DETAILED FINDINGS — PAYMENT CARDS

Missing Statutory Authority for Reimbursement

Finding

During the audit fieldwork, we identified one payment transaction where the University did not have the legal authority for reimbursing its local account for the purchase. The payment card transaction was used to purchase bottled water. The University stated that the State Treasury account was charged in error and that the funds were returned to the state.

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 Opinion, Texas Attorney General, Number C-557(1965).

According to [eXpendit – Statutory Authority for Purchases](#), 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

The University must determine whether an item has a specific state purpose before authorizing payment or reimbursement.

University Response

The University concurs with the recommendation. Procurement Services will make presentations to Department Business Administrators to educate them on allowable procurement card expenses. In addition, all cardholders will receive annual communications regarding prohibitive procurement card purchases

DETAILED FINDINGS — EXPENDITURE APPROVALS

Control Weakness Over Expenditure Processing

Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations that the University placed on its accounting staff members' abilities to process expenditures. We reviewed the University's security in USAS, TINS and its voucher signature cards that were in effect on March 25, 2014. We did not review or test any internal or compensating controls that the University may have relating to USAS or TINS security or internal transaction approvals.

One employee could adjust payment instructions in TINS and approve paper vouchers. The University received a schedule of this finding during fieldwork. Additional copies are available upon request.

To reduce risks to state funds, agencies should have controls over expenditure processing that segregate 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.

Recommendation/Requirement

The University 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.

University Response

The University concurs with the recommendation. The University plans to review the controls over expenditure processing and confirm that no individual is able to process payments without oversight implemented in Q1 2015. The review will be done thereafter bi-annually.

Employee Retained Ability to Expend Funds After Termination

Finding

During the audit period, the University failed to notify the Comptroller's office about the termination of one employee who had been designated by the University to approve its expenditures. The employee was listed on the University's voucher signature card for 1,121 days after termination or 1,116 days after the Comptroller's office should have been notified. This means that the former employee could have approved vouchers that were submitted to the Comptroller's office on paper during that time. Any payment produced by a paper voucher that was approved by the terminated employee would have constituted an unapproved expenditure. According to the University, the employee remained on the signature card due to an oversight. As a result of the audit, the Comptroller's office removed the employee from the signature card system.

The Comptroller's office has a formal rule pertaining to designating individuals to approve agency expenditures and revoking those designations; it was in effect during the audit period. 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 emails, 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.

Recommendation/Requirement

The University must ensure compliance with the preceding requirements. The University 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
- Checks to ensure that the revocation occurred.

University Response

The University concurs with the recommendations. The University plans to modify the current monthly termination reporting to weekly and will send an email to the Comptroller's office to ensure the receipt of the notification and that the revocation occurred.