

Fiscal Management Division  
Expenditure Audit Section  
Auditor: Derik Montique

Audit Report # 758-15-01  
November 6, 2015

# Post-Payment Audit of the Texas State University System



**Glenn Hegar**  
Texas Comptroller of Public Accounts

# Table of Contents

## Executive Summary

|  |    |
|--|----|
| Audit scope.....   | i  |
| Payroll transactions and payroll deductions .....                  | i  |
| Benefits proportionality.....                                      | i  |
| Internal control structure.....                                    | ii |
| Prior post-payment audit and current audit recurring findings..... | ii |

## Detailed Findings — Benefits Proportionality

|   |   |
|---|---|
| No Distinction Between Employees Paid from General Appropriations, Institutional Funds and from the Foundation..... | 1 |
|---|---|

## Detailed Findings — Expenditure Approvals

|   |   |
|---|---|
| Control Weakness Over Expenditure Processing..... | 4 |
|---|---|

---

## EXECUTIVE SUMMARY

### Audit scope

We audited all of the Texas State University System (System) payroll transactions that processed through the Uniform Statewide Payroll/Personnel System (USPS) during the period beginning Sept. 1, 2013, through Aug. 31, 2014, to determine compliance with applicable state laws.

The System 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 System should implement the recommendations listed in the Detailed Findings of this report. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the System's documents comply in the future. The System must ensure that the findings discussed in this report are resolved.

*Texas law requires the Texas Comptroller of Public Accounts (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), the [Texas Payroll/Personnel Resource](#) and other pertinent statutes.

- No issues were identified.

A limited sample of voluntary contributions was also audited.

- No issues were identified.

### Benefits proportionality

We audited the System's compliance with [Benefits Proportional by Fund \(APS 011\)](#).

The audit identified:

- No clear division between employees paid from general revenue and employees paid from local funds.

## Internal control structure

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

The review identified:

- One employee who can pick up warrants from the Comptroller's office and approve paper vouchers.

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

A prior post-payment audit of the System's payroll transactions was concluded on Aug. 15, 2012.

During the current audit, the following recurring finding was identified:

- Control weakness over expenditure processing.

**Contact:**

Derik Montique, MBA, CFE  
512-305-9761

**Contributing Auditor:**

Aleks Nećak, CTP

---

## DETAILED FINDINGS — BENEFITS PROPORTIONALITY

### No Distinction Between Employees Paid from General Appropriations, Institutional Funds and from the Foundation

#### Background

[Benefits Proportional by Fund \(APS 011\)](#) provides instructions necessary to determine the proportionality of an agency's or institution's funding from appropriated funds, which helps the entities calculate the proper amount of benefit payments to be paid from each of the funding sources. The Benefits Proportional by Fund Report applies only to payments of benefit costs for the prior appropriation year's budget. Agencies and institutions funded with a single appropriated fund are not required to complete the proportionate benefits calculation but are required to submit a letter confirming this status to both the Comptroller's office and the State Auditor's Office (SAO) by Nov. 19 each year. Such agencies and institutions must also send a letter to the Legislative Budget Board (LBB).

The System, according to the GAA, is a single funded agency and as such is not required to submit this report. However, the System also has other employees who are paid from institutional funds assessed by the System to the Universities within the system. While the System is single funded per the GAA, the funds obtained from institutional accounts are comingled with the appropriated funds; therefore, the System has more than one source of funds used for salary and benefits.

Payrolls processed in USPS must use accurate amounts for the proportionality calculations. The use of general revenue (GR) for paying employee benefits associated with salaries and wages paid from other funding sources is specifically prohibited unless achieving proportionality at the time of the payment would be impractical or inefficient. If it is determined that GR paid more than its proportionate share of benefits, an adjustment must be made to achieve a proportional benefit distribution. In May 2014, the Governor's Office issued a request that all institutions of higher education ensure that proportionality is being applied in accordance with the GAA. We reviewed the System's procedures and methodology regarding its benefits proportionality calculations.

#### Finding

During our review of the System's documents and subsequent meetings with staff, it was confirmed that the System's methodology for determining its fund benefit proportionality was incorrect for the appropriation years (AYs) reviewed. System management had determined, as a result of a self-assessment that began in February 2014, that the GR paid more than its proportionate share of employee benefits, so an adjustment was necessary.

The System did not maintain a clear distinction between the proportion of an employee's salary paid from GR and paid from institutional funds. The GAA for AY 2014-15, indicates that the System has a cap of 12 full-time equivalent employees (FTEs). The System had 21.2 FTEs.

During our review, the System reported the following FTEs to the SAO:

- AY 2011: Appropriated – 10.8; Non Appropriated – 9.0
- AY 2012: Appropriated – 12.6; Non-Appropriated – 7.9
- AY 2013: Appropriated – 12.4; Non-Appropriated – 8.8
- AY 2014: Appropriated – 8.3; Non-Appropriated – 12.9

The System explained that its payroll process is set up in a way to fund the payroll for all 22 FTEs. The System uses GR until the funds are completely exhausted and, at that point, transfers institutional funds into the State Treasury to continue to fund its upcoming payroll expenditures. As a result, the System explained that for all of the years selected and reviewed, all employee salaries were partially funded from both GR and institutional funds at some point during the year.

Normally, payroll transactions for higher education are posted to the Human Resource Information System (HRIS) from payroll/HR systems maintained by the institution. However, because of the perceived simplicity in its payroll transactions, the System requested and was given permission by the Comptroller's office to process its appropriated transactions through USPS.

To prevent any confusion and comingling of appropriated GR and institutional funds, the System was asked to set up a separate fund (Appropriated Fund 1014 – Texas State University System Local Operating Fund) to facilitate the processing and reporting of payroll expenditures through USPS by receiving amounts transferred from outside the State Treasury for payments of payroll. Although the fund was established on Oct. 16, 2014, there is no activity to-date.

We also noted that the System processed payroll expenditures for two individuals during the periods under review (one for AY 2011 and AY 2012 and the other for AY 2012 through AY 2014) who are actually employees of the State of Texas University System Foundation, Inc. (Foundation). The System processes the Foundation's payroll through USPS and, at the end of each fiscal year, obtains reimbursement from the Foundation and deposits the funds in the State Treasury.

### **Recommendation/Requirement**

We recommend that the System determine the appropriate breakdown between employees paid from the GR and employees paid from institutional funds and make payments accordingly from the specific funds (GR and the new appropriated fund 1014). The system must reimburse GR for any identified overages.

For individuals who are employees of the Foundation, the System should meet with its payroll contacts in the Comptroller's office to set up an accounting structure and special job classification, thereby excluding them from the required statewide reporting. The System should also review its procedure to ensure it is in compliance with APS 011.

We also recommend that the System continue to review and discuss proportionality differences with the Comptroller's office and the Employees Retirement System of Texas staff to determine the total amount outstanding.

**System Response**

*The Texas State University System agrees that benefits should be paid proportional to the funding source. The internal processes have been modified in accordance with the GAA and arrangements have been made for repayment of identified over-payments from general revenue.*

*The Texas State University System agrees that the Comptroller's office should assist to set up an accounting structure to accurately reflect any employees of the Foundation.*

---

## 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 System placed on its accounting staff members' abilities to process expenditures. We reviewed the System's security in USPS, the Texas Identification Number System (TINS) and voucher signature cards that were in effect on Oct. 7, 2014. We did not review or test any internal or compensating controls that the System may have relating to USPS or TINS security or internal transaction approvals.

One employee had the security to pick up warrants from the Comptroller's office and approve paper vouchers. According to the System, its internal procedures and limited accounting staff members prevent it from separating security access and controls. As a result of the audit, the system rescinded the employee's ability to pick up warrants from the Comptroller's office.

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 do the following without another person's involvement:

- Process transactions or
- Enter or alter and then release payments or other accounting transactions within the statewide financial systems.

#### Recommendation/Requirement

The System 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.

#### System Response

*The Texas State University System agrees and will continue to monitor to ensure appropriate oversight is maintained.*