

Fiscal Management Division  
Expenditure Audit Section  
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# Post-Payment Audit of the University of Houston- Downtown



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## EXECUTIVE SUMMARY

### Audit scope

We audited a sample of the University of Houston-Downtown (University) payroll and purchase transactions, as well as all grant transactions, that processed through the Uniform Statewide Accounting System (USAS) during the period beginning Sept. 1, 2013, through Aug. 31, 2014, to determine compliance with applicable state laws.

The University receives appendices with its full report that includes 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. If necessary, the Texas Comptroller of Public Accounts (Comptroller's office) may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that University's documents comply in the future. The University 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.

The audit identified:

- Incorrect payments of accrued vacation time.

A limited sample of voluntary deductions was also audited.

The audit identified:

- Incomplete reporting of payroll deductions.

### Purchase transactions

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

The audit identified:

- Purchase overpayments.

### Grant transactions

The audit included 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 of these payments did not include an investigation of the University's procedures for awarding the grants or monitoring payments made to grantees; therefore, we are not offering an opinion on those procedures.

- No issues were identified.

### Internal control structure

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

The audit identified:

- Two employees who can process and release payments through USAS.
- Two employees who can process and release payrolls.
- One employee who can process and release payments between the internal system and USAS.

### Fixed assets

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

- All assets tested were in their intended location and properly recorded in SPA.

During the audit period, the University reported four stolen assets and filed a police report for the stolen assets. These assets totaled a net book value of \$3,391.53.

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

A prior post-payment audit of the University's payroll, purchase and travel transactions was concluded on Aug. 19, 2011.

During the current audit, there was one recurring finding:

- Control weakness over expenditure processing.

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## DETAILED FINDINGS — PAYROLL

### Incorrect Payment of Accrued Vacation Time

#### Finding

We identified two instances where employees' lump sum payment for accrued vacation time was incorrectly calculated, resulting in underpayments of \$486.52 to the employees.

One employee, who terminated on Jan. 31, 2014, was not credited with a March holiday. This resulted in an underpayment of \$469.60. The other employee's hourly rate was incorrectly calculated, resulting in an underpayment of \$16.92. Both of these miscalculations were due to oversight.

The balance of the accrued vacation time must be allocated over the workdays following the effective date of the employee's separation from state employment until the accrued vacation time is completely allocated. Hours must be added for each state or national holiday that occurs during the period over which the time is allocated. See Texas Government Code, Section 661.064.

We provided the University with the schedules and calculations of the incorrect payment amounts. They are not included with this report due to confidentiality issues.

During fieldwork, the University compensated both employees for the underpayment amounts.

#### Recommendation/Requirement

We recommend the University enhance its internal controls to prevent incorrect payments of accrued vacation time.

#### University Response

*The employee who processed these payments no longer works for UHD. The two current payroll employees have been properly trained by the University of Houston System Payroll Office on how to process an employee's lump sum payment for accrued vacation time, and are following the Texas Comptroller's Office Lump Sum Payment of Accrued Vacation Time guidelines, as provided by auditor Jesse Cantú. In addition, the University has established internal controls to prevent incorrect payments for accrued vacation. All lump sum payment requests for accrued vacation time are being reviewed by the chief human resources officer before payment is processed.*

## Incomplete Reporting of Payroll Deductions

### Finding

We identified five instances where the payroll deduction recorded in the Human Resource Information System (HRIS) did not match the amount shown on the authorization form. The authorization form was verified against the University's internal payroll system. The University is still investigating these discrepancies.

The Comptroller's office collects and maintains payroll and personnel information on all state employees. The information is used to report statistics to various legislative and oversight bodies, media and the general public. Institutions of higher education must report personnel and payroll events to HRIS as outlined in 34 Texas Administration Code, Section 5.41(h)-(i). If the Comptroller's office detects an error in a state agency's report of personnel or payroll information, then the Comptroller's office shall provide a description of the error to the University. The University shall then correct the error according to the requirements of the Comptroller's office.

We provided the University with the schedule during fieldwork. The schedule is not included with this report due to confidentiality issues.

### Recommendation/Requirement

The University must ensure that all payroll and personnel financial transactions are reported to HRIS in a timely manner. The report to HRIS must be made in the manner, frequency and form required by the Comptroller's office.

### University Response

*A thorough review of the HRIS interface and our PeopleSoft system is currently being assessed to confirm accuracy and timeliness of the information. This review will be completed in the Fall of 2015. Furthermore, the University of Houston System Payroll staff has reached out to the Comptroller's office for additional training in the HRIS system and to discuss the HRIS interface. This training will be conducted in the fall of 2015.*

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## DETAILED FINDINGS — PURCHASE

### Purchase Overpayment

#### Finding

During our audit, we contacted 10 vendors outside the sample to determine if any potential issues exist related to the University's account with the vendor. From the 10 vendors contacted, six responded to our inquiry. In reviewing the vendor responses, we identified two that were overpaid for goods or services.

Inadvertent overpayments occur as of a result of pricing errors, neglected rebates and discounts, miscalculated freight charges, unclaimed refunds and other related errors. In this case, the University failed to collect overpayments from the two vendors dating back to 2006. As a result, these two vendors were overpaid \$9,766.20 by the University. The University stated that due to employee turnover, the University was not aware of these overpayments.

When the University and a vendor agree to a certain rate or quantity, unless the purchase order is properly amended by the vendor providing additional consideration, any amount above that rate or quantity may not be paid. In addition, any amendments must be completed prior to the vendor providing goods or services.

#### Recommendation/Requirement

The University must properly review and compare the invoices to the contract to ensure that:

- Payments do not exceed the amounts authorized in the purchase order and
- Any amendments to the original purchase order are documented.

#### University Response

*The vendor issued credit memos in 2006 as a result of price adjustments that occurred after the order has been confirmed by the vendor and paid. Additionally, orders for library services for the renewal of existing service are submitted on a blanket order, and some of those ordered services were subsequently picked up by the consortium, so the vendor canceled those items from our original request and issued credit memos for those canceled services. The problem was that UHD never processed those credit memos because they were forwarded to an email in-box for a terminated UHD employee.*

*Solution – A departmental email address has been set up for Accounts Payable and will be set up for each voucher-processing department, to be used for communication with vendors about invoices, credit memos and vendor statements. More than one staff member will have access to incoming documents for that area.*

*The EBSCO and Amigos Library Credit Memos mentioned above have all been vouchered and subsequent payments reduced for both of these Library vendors.*

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## 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, the Texas Identification Number System (TINS) and its voucher signature cards that were in effect on Oct. 30, 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.

The University had two employees who could process and release payments through USAS without oversight, and process and release payrolls without oversight. In addition, one of these employees can also process and release payments between the University's internal system and USAS.

To reduce risks to state funds, the University 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.

We ran a report to see whether any of the University's payment documents were processed through USAS during the audit because of the action of only one person; no issues were identified.

#### 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

*As reported in the response to the 2011 post-payment audit:*

*"We have reviewed the controls over expenditure processing and determined that currently there is need for two individuals to have the ability to change documents as well as release documents in USAS."*

*On August 30, 2011, a USAS Security Request was processed to establish a preventative control, as discussed in "Fiscal Policies and Procedures B.005, that will provide a warning if the release has been requested for a document that the same person entered or altered." This preventative control is in place and operational.*

*Internal procedures are in effect to ensure that, whenever possible, the person who enters/ alters a document defers the release function to the other individual. If it is not possible to do that, a copy of the document in question is signed by the other releasing individual and scanned into the backup documents for the voucher in the UH Financial System.*

*As noted in the Finding, a report on documents processed by the actions of one person showed that there were no issues identified.*

### **Comptroller Response**

The actions that the University stated above may assist by making employees aware of the control issue identified, but will not provide the University any assurance that one is prevented from processing payments without oversight. The University must implement the preventative controls including a fatal error to ensure that no individual is able to process payments without oversight.