

Fiscal Management Division  
Expenditure Audit Section  
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# Post-Payment Audit of the University of North Texas System Administration



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## EXECUTIVE SUMMARY

### Audit scope

We audited a sample of payroll transactions for the University of North Texas System Administration (System) that processed through the Uniform Statewide Accounting System (USAS) during the period beginning Dec. 1, 2013, through Nov. 30, 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. It is the System's responsibility to seek refunds for all overpayments, unless it determines it is not cost effective to do so. If necessary, the Comptroller of Public Accounts (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.

The audit identified:

- Incorrect payment of accrued vacation time.
- Incorrect longevity payment amount.
- Non-compliance with Human Resource Information System (HRIS) reporting requirements.

A limited sample of voluntary contributions was also audited.

- No issues were identified.

### Security

The audit included a security review that entailed identifying any of the System'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employees with security in USAS or on the voucher signature cards, who were no longer employed or whose security had been revoked.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 audit identified:

- Four employees who retained the ability to expend funds after termination.
- One employee who retained the security to expend funds after authority expired.

### 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:

- Two employees can adjust payment instructions in the Texas Identification Number System (TINS) and approve paper vouchers.

### Direct deposit authorization forms

A review was conducted of the System's procedures to comply with the federal mandate to properly identify and handle payments involving the international movement of funds.

The review identified:

- Two instances where the payees failed to indicate whether the deposited funds would be forwarded to a financial institution outside the United States.

The direct deposit authorization forms did 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 findings

A prior post-payment audit of the System's payroll transactions was concluded on Oct. 20, 2011.

During the current audit, one recurring finding was identified:

- Incorrect longevity payment amount.

### Contact:

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## DETAILED FINDINGS — PAYROLL

### Incorrect Payment of Accrued Vacation Time

#### Finding

We identified three instances where employees' lump sum payments for accrued vacation time were incorrectly calculated. Two employees were overpaid a total of \$260.24. One employee was underpaid \$166.31.

The calculations were manually prepared and resulted in incorrect amounts 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. See Texas Government Code, Section 661.064.

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

#### Recommendation/Requirement

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

The System should consider recovering the amount of overpayments in accordance with Texas Government Code, Chapter 666, unless it determines it is not cost effective to do so. In addition, the System must compensate the employee for the underpaid amount.

#### System Response

*The UNT System Administration agrees with this finding and requirements.*

*During the time period audited, the Payroll Department was in a stage of transition to a centralized, shared service organization established to provide payroll services to all UNT System institutions.*

*The UNT System is also currently undergoing a major financial transformation (since May 2014) to review all financial-related processing activities throughout all institutions. All payroll processing activities are being reviewed to establish best practices and controls that will help minimize errors in the future.*

*Vacation payouts were calculated using an annualized approach. The underpayment error identified an unknown weakness in this approach and therefore identified a need to change the methodology, which has since been made. Also, under the historical practice, individual vacation payout calculations were completed with no review. A new process has been implemented that provides for a secondary review of payout calculations.*

*The two overpayments that were the results of human error will be analyzed to determine the cost/benefit for attempting to collect the overpayments from past employees.*

## Incorrect Longevity Payment Amount

### Finding

In our audit of payroll transactions, we identified one employee with an incorrect effective service date in the System's internal payroll/personnel system. This resulted in two incorrect transactions totalling an overpayment amount of \$40.00 in longevity pay.

The System incorrectly calculated the employee's prior state service period, resulting in an incorrect effective service date.

We provided the System with the schedule and calculation of the incorrect payment amount. They are not included with this report due to confidentiality issues.

The System collected the overpayment amount from the employee during fieldwork.

### Recommendation/Requirement

The System should verify months of service data for its employees and enhance its internal controls to prevent incorrect longevity payment amounts.

In addition, the System should verify all personnel files and ensure that prior state service is properly verified and documented for its employees.

### System Response

*The UNT System Administration agrees with this finding and requirements.*

*During the time period audited, the Human Resources Department was in a stage of transition to a centralized, shared-service organization established to provide HR related services to all UNT System institutions.*

*The UNT System is also currently undergoing a major financial transformation (since May 2014) to review all financial-related processing activities throughout all institutions. Longevity processing is being reviewed to establish best practices and controls that will help minimize errors in the future.*

*The Human Resources Department will finalize implementation of an automated process that calculates state service date and create a Prior State Service web page on our Human Resources website to provide each employee with general information about Prior State Service and prior state service periods we have on record.*

*As indicated in your report findings, the overpayment amounts were collected for this error.*

## Non-Compliance with HRIS Reporting Requirements

### Finding

During the post-payment audit period, the System processed payroll data through HRIS using 226 payroll and cancellation vouchers for a total dollar amount of \$30,543,365.21. Of these 226 vouchers, 66 vouchers with a total dollar amount of \$5,397,972.57 were reported three to five weeks past the statutory due date.

The System is not in full compliance with the statutory reporting requirements for institutions of higher education. Personnel and payroll information is required to be reported to HRIS by Texas Government Code, Section 2101.0375.

The Comptroller's office collects and maintains payroll and personnel information for 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(j)(1).

The System indicated it fell behind because of a new payroll system installed during the year.

### Recommendation/Requirement

The System must ensure that all payroll and personnel transactions are reported to HRIS in a timely manner:

- Personnel transactions are timely when they are successfully reported to HRIS on or before the seventh day of the month following the effective date.
- Payroll transactions are timely when they are reported and posted in HRIS by the seventh day of the month following the payment date.

### System Response

*The UNT System Administration agrees with this finding and requirements.*

*HRIS reporting is currently managed by the Payroll Department in the UNT System Controller's Office. The payroll system was upgraded to a new version of PeopleSoft during the time period of the review. Concurrently, the department experienced significant turnover in staffing and is now stabilized.*

*However, it is important to note that the delayed reporting issue was corrected shortly after the system conversion was complete and all employees (new and existing) continue to receive ongoing training to ensure timely reporting is maintained.*

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## DETAILED FINDINGS — SECURITY

### Employees Retained Ability to Expend Funds After Termination

#### Finding

During the audit period, the System failed to notify the Comptroller's office about the termination of four employees who had been designated by the System to approve its expenditures. This means that the former employees could have approved paper vouchers that were submitted to the Comptroller's office during that time. Any payment produced by a paper voucher that was approved by a terminated employee would have constituted an unapproved expenditure. No unapproved expenditures were identified during the audit.

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. Any officer or employee may send the Comptroller's office that notification. See 34 Texas Administrative Code, Section 5.61(k) (3) (B).

The System has procedures to notify the security coordinator of personnel actions. In this instance, the request to remove the employees' security was delayed due to oversight.

#### Recommendation/Requirement

The System must ensure that the person responsible for sending the Comptroller's office the notifications is aware of the designated employee's revocation on or before the date the revocation becomes effective.

The System must also follow through with the Comptroller's office to ensure the receipt of the notification and that the removal of the employee's security occurs.

#### System Response

*The UNT System Administration agrees with this finding and requirements.*

*The process and oversight of managing approvers for expenditures was placed under scrutiny and a new centralized tracking process has been identified to improve controls in this area. This new centralization process will be implemented next fiscal year (beginning Sept. 1, 2015) to better monitor employee terminations and remove expenditure authorization in a timely manner. Future system enhancements are planned to include automated notification of employees terminating who have senior level authority for expenditure approvals and access to critical systems, including USAS, HRIS, banking and internal systems.*

*The UNT System Administration will also work closely with the state Comptroller's office to confirm receipt of requests related to terminating access in the future.*

## Employee Retained Security to Expend Funds After Authority Expired

### Finding

During the audit period, the System failed to submit a request to remove one employee's security in USAS to electronically approve the System's expenditures on or before the effective date of the employee's revocation. The security request was sent 163 days late. This permitted the employee to approve any vouchers that the System submitted electronically to the Comptroller's office through USAS after the employee's authority expired. We did not identify any instance where the employee approved vouchers after the revocation date.

When an employee's authority to approve an agency's expenditures is revoked for any reason, the employee's security profile must be changed not 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).

The System has procedures to notify the security coordinator of personnel actions. In this instance, the request to remove the employee's security was delayed due to oversight.

### Recommendation/Requirement

The System must ensure that the person responsible for sending the Comptroller these notifications is aware of the designated employee's revocation on or before the revocation becomes effective.

The System must also follow through with the Comptroller to ensure the receipt of the notification and that the removal of the employee's security occurs.

### System Response

*The UNT System Administration agrees with this finding and requirements.*

*The process and oversight of managing USAS access was placed under scrutiny and a new centralized tracking process has been identified to improve controls in this area. This new centralization process will be implemented next fiscal year (beginning Sept. 1, 2015) to better monitor employee terminations and remove access in a timely manner. Future system enhancements are planned to include automated notification of employees terminating who have senior level authority for expenditure approvals and access to critical systems, including USAS, HRIS, banking and internal systems.*

*The UNT System Administration will also work closely with the state Comptroller's office to confirm receipt of requests related to terminating access in the future.*

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## DETAILED FINDINGS — EXPENDITURE CONTROL

### 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 USAS, TINS and voucher signature cards that were in effect on Jan. 26, 2015. We did not review or test any internal or compensating controls that the System may have relating to USAS or TINS security or internal transaction approvals.

Two employees can adjust payment instructions in TINS and approve paper vouchers without oversight. The System was provided with 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 practicable. Ideally, no individual should be able to process transactions without another person's involvement.

#### Recommendation/Requirement

The System should periodically 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 UNT System Administration agrees with this finding and requirements.*

*The UNT System is also currently undergoing a major financial transformation (since May 2014) to review all financial related processing activities throughout all institutions. All payroll processing activities are being reviewed to establish best practices and controls that will help minimize errors in the future.*