Fiscal Management Division
Statewide Fiscal Services Dept.
Expenditure Audit Section
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Post-Payment Audit of Lamar State College-Orange

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Texas Comptroller of Public Accounts

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Executive Summary

Audit scope

We audited a sample of Lamar State College-Orange (College) payroll and purchase transactions that processed through the Uniform Statewide Accounting System (USAS) during the period beginning Sept. 1, 2015, through Aug. 31, 2016, to determine compliance with applicable state laws.

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.

The College receives appendices with the 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 College should implement the recommendations listed in the Detailed Findings of this report. It is the College's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the College's documents comply in the future. The College must ensure that the findings discussed in this report are resolved.

Payroll transactions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), the Texas Payroll/Personnel Resource and other pertinent statutes. The College was also audited for compliance with Human Resource Information System (HRIS) reporting requirements. A limited sample of voluntary contributions was also audited.

The audit of 90 payroll transactions identified:

- Three of 30 employees with incorrect longevity payment amounts.
- One of 30 employees with incorrect payment of accrued vacation time.

Purchase transactions

Purchase transactions were audited for compliance with the GAA, eXpendit, the *State of Texas Procurement and Contract Management Guide* and other pertinent statutes.

The audit of 40 purchase transactions identified:

- Missing documentation.
- Incorrect amount paid.
- Interest lost to the Treasury.

Security

The audit included a security review to identify any of the College'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.

- No issues were identified.

Internal control structure

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

- No issues were identified.

Fixed assets

The audit included a limited number of fixed assets acquired by the College during the audit period to test for proper tracking in the College's internal system. All assets tested were in their intended location and properly tagged.

- No issues were identified.

Prior post-payment audit and current audit recurring findings

A prior post-payment audit of the College's payroll, purchase and travel transactions was concluded on July 12, 2013. There are no re-occurring findings as a result of the current audit.

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Detailed Findings — Payroll

Incorrect State Effective Service Dates/Longevity Payments

Finding

In our review of 90 payroll transactions, we identified three employees with incorrect state effective service dates in the College's internal payroll/personnel system. The errors resulted in two employees being underpaid longevity, and one employee being overpaid longevity.

Per the College, the first employee's state effective service date was brought forward incorrectly from Lamar University's system when Lamar State College-Orange began processing payroll internally. The incorrect state effective service date resulted in an underpayment of $680 in longevity pay to the employee. The second and third employees' prior state service dates were entered incorrectly in the College's internal payroll/personnel system. For the second employee, the error resulted in a $240 underpayment in longevity for the months of September 2006 through August 2007 and a $140 overpayment in longevity for the months of September 2015 through March 2016 for an overall underpayment of $100 in longevity pay. For the third employee, the error resulted in an overpayment of $1,080 in longevity pay.

When an agency hires an employee, the agency must research if the employee has prior state employment. The agency must ensure that the correct number of hours is being used for longevity benefit pay calculations. If an employee has prior state employment, the agency must confirm the amount of lifetime service credit and properly record it, or run the risk of incorrectly paying longevity pay. See Texas Payroll/Personnel Resource – Longevity Pay.

We provided the College with the schedules and calculations of the incorrect payment amounts. They are not included with this report due to confidentiality issues. During fieldwork, the College compensated the two employees for the underpayment amounts.

Recommendation/Requirement

The College must verify and correct months of service for its employees and enhance its internal controls to prevent incorrect longevity payments. In addition, the College should confirm all personnel files and ensure that prior state service is properly verified and documented for all its employees. The College must also compensate employees underpaid longevity pay through a supplemental payroll. See Texas Government Code, Section 659.006 and 34 Texas Administrative Code Section 5.40(c). The College should consider recovering the overpayment in accordance with the Texas Government Code, Chapter 666.

College Response

The College has compensated the two employees who were under-compensated. However, the college will not seek recovery of the overpayment because the college determined it is not cost effective to do so. The longevity going forward was adjusted at the time of the audit.

Incorrect Vacation Lump Sum Payment

Finding

In our review of 90 payroll transactions, we identified one of 30 employees in which the employee's lump sum payment for accrued vacation time was incorrectly calculated, resulting in an underpayment to the employee. Per the College, the underpayment was due to a mathematical error when manually calculating the employee's lump sum payment. The College's calculation reflected a total balance of 204.45 vacation hours when the accurate balance was 205.45.

The balance of the accrued vacation time must be completely allocated over the workdays following the effective date of the employee's separation from state employment. 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 College with the schedules and calculations of the incorrect payment amounts. They are not included with this report due to confidentiality issues.

During fieldwork, the College compensated the employee for the underpayment amount.

Recommendation/Requirement

The College must verify and correct payments of accrued vacation time for all its employees and enhance its internal controls to prevent incorrect vacation lump-sum payments.

College Response

All lump-sum vacation payments are to be reviewed by the director of accounting for accuracy prior to providing the information to Human Resources for entry into the accounting system. Once Human Resources receives the data, they will also review the calculations for accuracy.

Detailed Findings — Purchase

Missing Receiving Documentation

Finding

During our audit of 40 purchase transactions, we identified one transaction for $3,444, which was missing receiving documentation to verify receipt of goods purchased. The College has procedures in place to verify receiving documentation prior to processing the payments; however, these procedures were not followed in this instance.

Without proper documentation, we could not determine whether the information entered into USAS was an accurate reflection of the intended purchases made. Accurate documentation must be maintained to verify that payments are valid and to ensure a proper audit trail.

As provided by 34 Texas Administrative Code Section 5.51(c)(1)(D), it is the responsibility of a state agency and its officers and employees to ensure "that for each purchase document, the agency maintains necessary documentation for proving that each payment resulting from the document is legal, proper, and fiscally responsible." Supporting documentation must be made available to the Comptroller's office in the manner required by the agency. The types of supporting documentation the Comptroller's office may request includes: purchase orders, requisitions, contracts, invoices and receipts. See 34 Texas Administrative Code Section 5.51(e)(2)-(3).

Recommendation/Requirement

The College must ensure that all payments are made with sufficient supporting documentation. The College must also ensure that it creates and maintains supporting documentation for audit reviews, keeping in mind that the information contained in these documents must reflect a reasonable sequential order of transactional events.

College Response

Accounts Payable will be more diligent in obtaining proof of receipt prior to payments. Proof required will be either electronic receiving completed in the accounting system by the Physical Plant Receiving Department or an email confirmation from the department that the goods were received or the services were rendered.

Incorrect Amount Paid

Finding

We identified one out of 40 transactions in which the College paid more than the authorized amount on the purchase order (PO). The College explained that the vendor charges an additional fee to customers who are not enrolled in their auto-pay program. The College has since received a refund from the vendor for the overpayments.

A PO is a contract entered into by the state and a vendor in which both parties agree to a certain rate and/or quantity. Unless the PO is properly amended by the vendor providing additional consideration, any amount above the stated rate and/or quantity may not be paid. In addition, any amendments must be completed prior to the vendor providing goods or services.

Recommendation/Requirement

The College must properly review and compare invoices to POs to ensure payments do not exceed the amounts authorized in the PO and any amendments to the original contract are documented. The College must not only ensure that it creates and maintains supporting documentation for audit reviews, keeping in mind that the information contained in these documents must reflect a reasonable sequential order of transactional events, but the College must also certify that the content of each document is meticulously verified and fully corresponds to prior agreements.

College Response

In the future all variances from the stated charges on purchase orders will not be paid. The director of purchasing and contracts has been asked to provide the accounts payable clerk copies of all agreed-upon amounts (for standing purchase orders where costs may not be easily determined by the line items).

Payment Scheduling Errors

Finding

Texas Government Code, Section 2155.382(d) authorizes the Comptroller's office to allow or require state agencies to schedule payments that the Comptroller's office will make to a vendor. The Comptroller's office must prescribe the circumstances under which advance scheduling of payments is allowed or required; however, the Comptroller's office must require advance scheduling of payments when it is advantageous to the state.

We identified eight purchase transactions where the College paid early, resulting in an interest loss to the State Treasury. According to the College, it had been given approval by the Comptroller's office during a previous audit to modify the payment dates of its transactions to ensure timely payments to vendors. However, there was no documentation to support this statement.

As a result of our audit, the College has agreed to 30-day scheduling for future expenditure payments.

Recommendation/Requirement

To minimize the loss of earned interest to the Treasury, the College must schedule all payments that are greater than $5,000 for the latest possible distribution and in accordance with its purchase agreements as described in eXpendit — Payment Scheduling.

College Response

Prior to 2001, the College was initiating a payment due date that was 13 days prior to the prompt-payment due date. In 2001, the college negotiated with the Comptroller's office and that early payment date was moved from 13 days to nine days. That negotiated date has been honored by the Comptroller's office through several post payment audits with the latest being in 2013. Although we had no confirmation from the Comptroller's office of the acceptance of our proposal for nine days, we did have a copy of the vice president for finance and operations' letter requesting the nine days. Until this audit, that letter has been accepted. At this time the college has determined that it is in everyone's best interest to schedule all payments exceeding $5,000 as required (with the exception of utility payments).