

An Audit of Texas State Technical College System

Audit Report # 719-18-01
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Texas Comptroller of Public Accounts



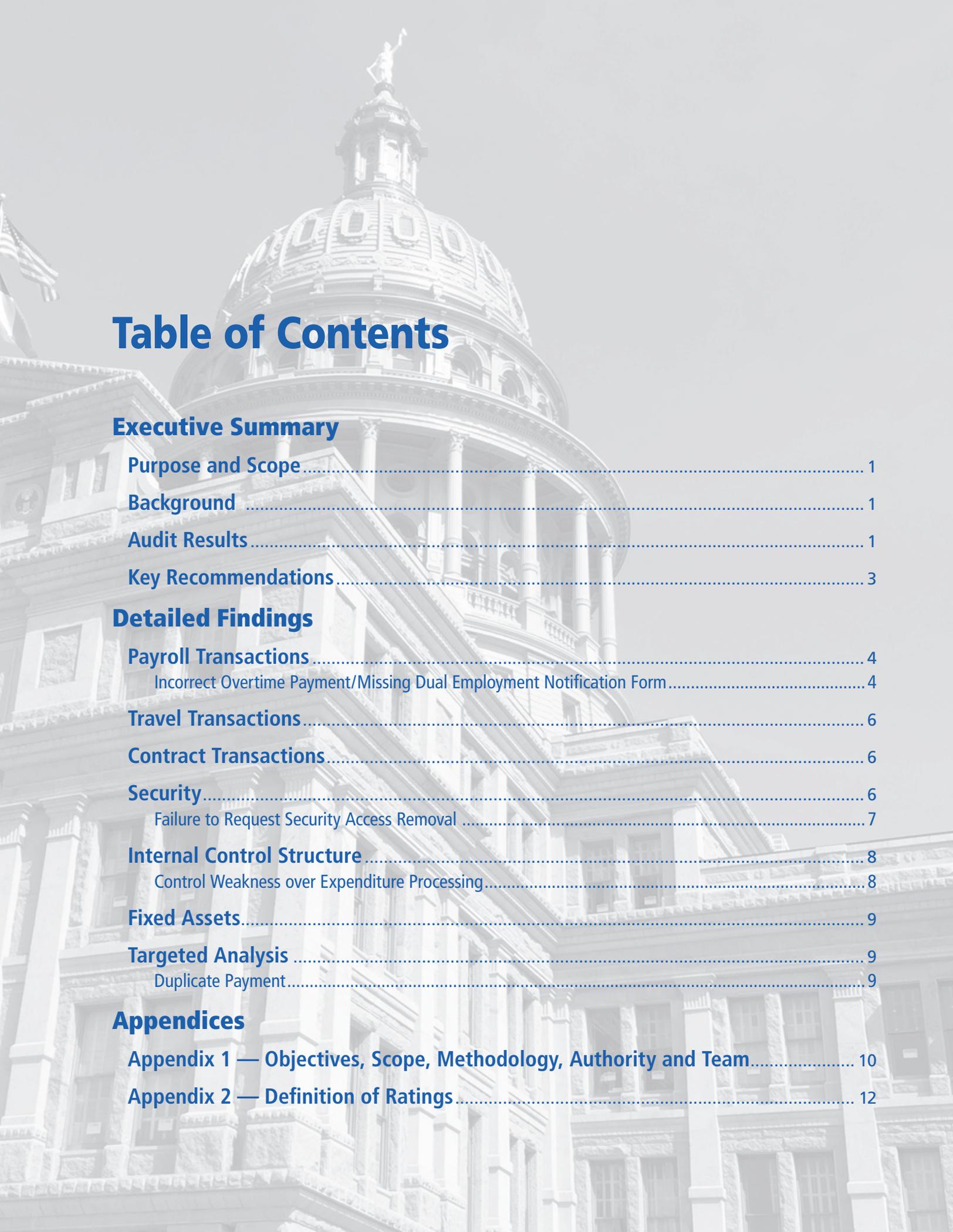


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Executive Summary

Purpose and Scope

The objectives of the Texas State Technical College System (College) audit were to determine whether:

- Contracts were procured according to applicable state laws and Comptroller requirements.
- Payments were processed according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Documentation to support those payments was appropriately maintained.
- Capital and high-risk assets were properly recorded.
- Appropriate security over payments was implemented.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from Sept. 1, 2016, through Aug. 31, 2017.

Background

Texas State Technical College was established in 1969, and is a technical state college with 10 campuses throughout Texas. It is a two-year institution of higher education offering courses of study in technical vocational education.

Texas State Technical College
System website

<https://www.tstc.edu/>

Audit Results

The College generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with travel and contracts. However, the College should consider making improvements to its payroll, system security, internal control structure and payment processes.

The auditors reissued two findings from the last audit conducted at the College related to duplicate payments and internal control structure. Auditors originally issued these findings in January 2015. An overview of audit results is presented in the following table.

Table Summary

Area	Audit Question	Results	Rating
<u>Payroll Transactions</u>	Did payroll transactions comply with the GAA, other pertinent statutes and Comptroller requirements?	Two employees received incorrect overtime payments. Also, one employee was missing a dual employment notification form and was not receiving overtime pay or credit for the time worked in excess of 40 hours per week.	Compliant, Findings Issued
Travel Transactions	Did travel transactions comply with the GAA, other pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Contract Transactions	Did contract transactions comply with all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Security</u>	Did all system access to process payments comply with all the Comptroller security guidelines?	One employee retained the security to expend funds after authority expired.	Compliant, Findings Issued
<u>Internal Control Structure</u>	Are duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	 One employee with overlapping security access.	Control Weakness Issues Exist
Fixed Assets	Were tested assets in their intended location and properly reported in the State Property Accounting System?	No issues	Fully Compliant
<u>Targeted Analysis</u>	Did purchase transactions comply with all pertinent statutes and Comptroller requirements?	 Two duplicate payments processed during the audit period.	Control Weakness Issues Exist





Key Recommendations

Auditors made several recommendations to help mitigate risk arising from control weaknesses. Key recommendations include:

- The College must enhance its overtime calculation process to ensure it includes eligible entitlement amounts in the regular pay rate for the calculation of overtime pay, specifically hazardous duty pay and longevity pay.
- The College must ensure notifications sent to the Comptroller's office to remove an employee's Uniform Statewide Accounting System (USAS) security profile are sent on or before the effective date of the revocation or termination to prevent the employee from executing electronic approvals for the agency.
- The College must have or implement additional controls over expenditure processing that segregate each accounting task to the greatest extent possible.
- The College must strengthen its procedures to identify duplicate invoices to avoid making a duplicate payment to a vendor. Also, the College should ensure its accounting staff reconciles invoices and payments to prevent duplicate payments.



Detailed Findings

Payroll Transactions

Auditors developed a representative sample from a group of 50 employees (186 payroll transactions) to ensure that the College complied with the GAA, the [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. The review also included a report that identifies employees who might be dually employed and subject to the overtime provisions of the Fair Labor Standards Act (FLSA). Additionally, a limited sample of 10 voluntary contributions transactions was audited with no exceptions identified. Audit tests revealed the following exceptions in the payroll transactions.

Dual Employment

If the person is subject to the overtime provisions of the federal Fair Labor Standards Act of 1938 in an employment, the employing agencies and institutions of higher education shall ensure that the person is compensated for all combined time actually worked that exceeds 40 hours per week in accordance with the overtime provisions of the federal law. The agencies and institutions shall cooperate to determine which agency or institution is responsible for ensuring that the employee is properly compensated according to those provisions.

Incorrect Overtime Payment/Missing Dual Employment Notification Form

In the audit of payroll transactions, auditors identified three instances where an employee's hazardous duty pay was not included in the employee's overtime pay calculation, resulting in an underpayment.

Special payments such as longevity pay, hazardous duty pay, benefit replacement pay and housing emoluments must be included in the regular pay rate for the calculation of overtime pay. See [Texas Payroll/Personnel Resource – Non-Salary Payments – Overtime](#).

According to the College, the overtime calculation process is manual, and it erroneously did not include stipends, only gross wages. The College stated that it is re-evaluating the overtime calculation process to ensure compliance with all payroll guidelines.

Also, in a report generated outside the sample, auditors identified an employee who worked at the College and one of the University of Texas campuses who was subject to the overtime provisions of FLSA but was not receiving overtime pay or credit for the time worked in excess of 40 hours per week. Employees should notify their current employer prior to obtaining a second employment. See [Government Code Section 667.007](#). Prior to the audit, the College did not have a dual employment notification form for employees to fill out. The College stated that the employee verbally informed the payroll officer about the dual employment, which was notated in the personnel file.



The state of Texas is considered a single employer for purposes of FLSA, so all time worked in a week by an employee employed at more than one state agency or institution of higher education must be considered when computing overtime. Accordingly, if the dually employed employee is subject to FLSA provisions in one of the employments, the employee is FLSA-covered in all employments.

The College should have acted on the dual employment information verbally provided to the payroll officer to avoid the potential for not compensating an employee appropriately. Also, the College should have coordinated with the other state agency to determine whether the employee was subject to FLSA because of the dual employment. The employing state agencies or institutions of higher education must coordinate work schedules and ensure that the employee is paid or credited with all the time worked in excess of 40 hours per week.

The College contacted the second employer and concluded that the employee was eligible for overtime pay. Based on discussions with the second employer, the College decided that it would pay the employee the overtime pay due. The College requested timesheets for the periods in which the employee was dually employed and paid the employee \$5,841.36 to compensate for the overtime due. The College used the hourly rate at the second entity, not the College, to calculate the amount of overtime pay due, so the employee could potentially be due additional overtime pay.

As a result of the audit, the College created a dual employment notification form and a policy to ensure coordination of work schedules so employees are paid or credited with all time worked in excess of 40 hours per week. The College has also implemented an onboarding process for new employees to declare their intention to enter or maintain multiple state employments.

Recommendation/Requirement

The College must enhance its overtime calculation process to ensure it includes eligible entitlement amounts in the regular pay rate for the calculation of overtime pay, specifically hazardous duty pay and longevity pay. The College must compensate employees for any underpaid amounts.

The College should review the [*Statewide Payroll/Personnel Reports Guide – State Employees Employed by More than One State Agency \(FPP D.002\)*](#) and coordinate with other agencies or institutions to ensure dually employed employees are, and have been, properly compensated. Additionally, the College must contact the U.S. Department of Labor, Wage Hour Division (WHD) and obtain its determination regarding the correct hourly pay rate to use, and determine whether the college, or the second employer, should pay additional overtime pay and how much the employee should be paid, if applicable. In the future, the College must contact WHD as soon as it becomes aware of any similar situations.



College Response

TSTC has re-evaluated and prepared changes to the overtime calculation process to include all appropriate stipends and eligible entitlement amounts including hazardous duty pay and longevity pay. The process change is expected to become effective no later than August 2019.

TSTC is now reviewing a monthly report that includes data provided by the Comptroller's office to identify any employees who are currently dually employed. This monthly review began in August 2018. Also, TSTC has created a dual employment notification form to be required in new-hire documentation. Completed forms will be reviewed at the time of hire to ensure that, in the event of dual employment, the situation is addressed with the other state agency and determinations are made regarding which agency pays additional overtime and how the amount is calculated. This form is expected to be in use by August 2019.

Lastly, TSTC contacted the Department of Labor, Wage Hour Division, in May 2019 to determine the correct hourly rate to be used related to the audit finding. The Department is currently doing research on the issue, and TSTC expects to have resolution on the matter in late May 2019.

Travel Transactions

Auditors developed a representative sample of 20 travel transactions to ensure the College complied with the GAA, [Textravel \(FPP G.005\)](#) and other pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

An additional 17 travel card transactions from a special report outside of the sample were tested. Audit tests revealed no exceptions in the travel transactions.

Contract Transactions

Auditors developed a representative sample of 16 contract transactions to ensure that the College complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

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. Audit tests revealed the following security exception.



Failure to Request Security Access Removal

During the audit period, the College failed to submit a timely request to the Comptroller's office to remove one employee's USAS security to approve expenditures electronically.

The College submitted a request to remove the employee from the signature card on Sept. 19, 2017, but did not submit a request to remove the employee's USAS security until Feb. 28, 2018, 162 days after the employee's revocation date.

The Comptroller's office removed the electronic approval access on Sept. 25, 2017. This could have permitted the employee to approve any vouchers the College submitted electronically to the Comptroller's office through USAS for six days after authority expired. Auditors verified no documents were processed or approved by the employee during those six days.

When an employee's authority to approve an agency's expenditures is revoked, the employee's USAS 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\(k\)\(5\)\(A\)-\(B\)](#).

When a termination occurs, the College must submit USAS security removals in a timely manner. In this case, the employee transitioned between departments and no longer needed the ability to approve expenditures. The College assumed the signature card removal would be sufficient to remove the USAS security access. Workflows have now been updated to ensure USAS security access is always removed timely, independent from the signature card change process.

Recommendation/Requirement

The College must ensure that notifications sent to the Comptroller's office to remove an employee's USAS security profile are sent on or before the effective date of the revocation or termination to prevent the employee from executing electronic approvals for the agency.

College Response

TSTC will update workflows to ensure that two notifications are sent simultaneously to the Comptroller's office to avoid a potential delay in both the signature card authority and electronic approval access being updated at the same time.



Internal Control Structure

The review of the College's internal control structure was limited to obtaining reports identifying current users' access. The review did not include tests of existing mitigating controls. The audit tests conducted revealed the following exception in user access.

Control Weakness over Expenditure Processing

As part of the planning process for the post-payment audit, auditors reviewed certain limitations that the College placed on its accounting staff's ability to process expenditures. Auditors reviewed the College's security in USAS, Texas Identification Number System (TINS) and voucher signature cards that were in effect on March 16, 2018. Auditors did not review or test any internal or compensating controls that the College may have relating to USAS, TINS security or internal transaction approvals.

The College had one employee who could adjust payment instructions in TINS and approve paper vouchers by being on the signature card. The College explained that the employee's job function changed and the access was not updated. After auditors alerted the College, the employee's TINS access was changed to inquiry only in April 2018.

Recommendation/Requirement

To reduce risks to state funds, agencies should have controls over expenditure processing that segregate each accounting task to the greatest extent possible. Ideally, no individual should be able to process transactions without another person's involvement.

The College must limit the access of users who can approve paper vouchers (being on the signature card) to view-only access in TINS (PTINS02). An individual must not be able to change a vendor/employee profile or direct deposit information and approve a payment.

College Response

In this instance, an employee's job functions changed as a result of college restructuring, and TINS access was not changed to view only. Once identified, the access was changed immediately. TSTC's processes to ensure segregation of duties for new employees are fully effective, but segregation of duties review for employees who change job duties are not entirely formalized. Procedures/checklists in the event of job transitions will be reviewed to ensure segregation of duties is maintained after transition.



Fixed Assets

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

Targeted Analysis

The audit included a review of reports to help identify potential duplicate payments processed by the College during the audit period. Audit tests revealed the following exceptions for this group of transactions.

Duplicate Payment

In a report generated outside the sample, auditors identified two duplicate payments the College processed during the audit period. The amounts of the duplicate payments were \$1,159.07 and \$293.80. The College agreed that the transactions were duplicate payments. In one instance, the College did not detect the duplicate payment because the transactions were processed in different years but with the same document number. In the second instance, the approving department submitted the invoice for payment twice under two different Purchase Order (PO) numbers so the duplicate payment was not identified.

The College sought reimbursement from one vendor and received it. For the other duplicate payment, the College attempted to collect from the vendor but the vendor was no longer in business. In both instances, the College processed payment vouchers to reimburse the state.

Recommendation/Requirement

The College must strengthen its procedures to identify duplicate invoices to avoid making duplicate payments to vendors. Also, the College should ensure its accounting staff reconciles invoices and payments to prevent duplicate payments.

College Response

Primary controls to identify duplicate payments are in place, including restrictions on using the same voucher number and notifications of duplicate invoice numbers. Further analysis of controls will be conducted to prevent other, less frequent errors such as payments in different years and submissions of the same invoice with different PO numbers. Also, training curriculum for procurement employees will be reviewed and updated to enhance focus on identification of potential duplicate payments.



Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team

Audit Objectives

The objectives of this audit were to:

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of any of the following:
 - Uniform Statewide Accounting System (USAS),
 - The Uniform Statewide Payroll/Personnel System (USPS),
 - The Standardized Payroll/Personnel Report System (SPRS) or
 - The Human Resource Information System (HRIS).
- Verify payments are made in accordance with certain applicable state laws.
- Verify assets are in their intended locations.
- Verify assets are properly recorded for agencies and institutions of higher education that use the State Property Accounting (SPA) system.
- Verify voucher signature cards and systems security during the audit period are consistent with applicable laws, rules and other requirements.

Audit Scope

Auditors reviewed a sample of the College's payroll, travel and contract transactions that processed through USAS and HRIS during the period from Sept. 1, 2016, through Aug. 31, 2017, to determine compliance with applicable state laws.

The College receives appendices with the full report, including a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

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 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 the College's documents comply in the future. The College must ensure that the findings discussed in this report are resolved.



Audit Methodology

The Expenditure Audit section uses limited sampling to conduct a post-payment audit.

Fieldwork

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based upon the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcation or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what action or additional procedures would be appropriate.

Audit Authority

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

Audit Team

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Appendix 2 — Definition of Ratings

Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Noncompliant

Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented. These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Noncompliant

Repeat Finding Icon Definition



This issue was identified during the previous post-payment audit of the agency.