



An Audit of **Tarleton State University**

Audit Report # 713-18-01
March 15, 2019

Glenn Hegar
Texas Comptroller of Public Accounts





Table of Contents

Executive Summary

Purpose and Scope	1
Background	1
Audit Results	1
Key Recommendations	3

Detailed Findings

Payroll Transactions	4
Incorrect Months of Service/Incorrect Longevity Payment	4
Travel Transactions	5
Purchase/Procurement Transactions	5
Purchase Order Created after Invoice	5
Missing Documentation	6
Grant Transactions	7
Refund of Revenue Transactions	7
Security	8
Internal Control Structure	8
Fixed Assets	9

Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team	10
Appendix 2 — Definition of Ratings	12



Executive Summary

Purpose and Scope

Objectives of the Tarleton State University (University) audit were to determine whether:

- Payments were processed according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Documentation to support those payments was appropriately maintained.
- Financial transactions 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 Dec. 1, 2015, through Nov. 30, 2016.

Background

Tarleton State University was established Sept. 4, 1899, and is under the management and control of the board of regents of the Texas A&M University System. Located in the city of Stephenville, Tarleton State University has approximately 716 staff members and 870 faculty members.

**Tarleton State University
website**



<https://www.tarleton.edu>

Audit Results

The University generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with travel, grants, refund of revenue transactions or system security. However, the University should consider making improvements to its payroll, purchase and internal control structure processes.

The auditors reissued two findings from the last audit conducted at the University related to payroll issues and internal control structure. Auditors originally issued these findings in July 2013. 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?	 Auditors identified three employees who received incorrect longevity payments.	Compliant, Findings Issued
Travel Transactions	Did travel transactions comply with the GAA, other pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Purchase/Procurement Transactions</u>	Did purchase transactions comply with the GAA, other pertinent statutes and Comptroller requirements?	Auditors identified five instances where a purchase order was created after invoice and one instance where support documentation was missing.	Compliant, Findings Issued
Grant Transactions	Did grant payments comply with the state laws and regulations pertaining to grants/loans and other pertinent statutes?	No issues	Fully Compliant
Refund of Revenue Transactions	Did refund of revenue transactions comply with all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Security	Did all system access to process payments comply with all the Comptroller security guidelines?	No issues	Fully Compliant
<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?	 Auditors identified two employees with overlapping access for multiple processes. Auditors detected 116 documents that processed because of a single employee's actions.	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





Key Recommendations

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

- The University should review the payroll/personnel records to ensure that the prior state service months are properly verified and documented for all its employees, including student employees. The University should also implement procedures to ensure employees do not receive a full month of service credit for a partial month of employment.
- The University must ensure that documentation of the purchase is prepared at the time the goods or services are ordered from the vendor.
- The University must ensure that no payment is made without sufficient supporting documentation.
- The University must have or implement additional controls over expenditure processing that segregate each accounting task to the greatest extent possible.



Detailed Findings

Payroll Transactions

Auditors developed a representative sample from a group of 35 employees and 222 payroll transactions totaling \$385,619.60 to ensure the University complied with the GAA, the [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. The review also included a report that identifies faculty or staff receiving incorrect longevity payments. Additionally, a limited sample of 10 voluntary contribution transactions was audited with no exceptions identified. Audit tests revealed the following exceptions in the payroll transactions.

Incorrect Months of Service/Incorrect Longevity Payment

Auditors identified three employees with incorrect months of service credit in the University's internal payroll system resulting in incorrect payments of longevity pay. Two employees did not receive state service credit for time previously employed as student employees, and the other employee was credited with a full month of service credit for a partial month of employment. The incorrect months of service credit resulted in two longevity underpayments, \$120 and \$480 respectively. There was also one longevity overpayment totaling \$40.

The two employees who were underpaid longevity noted the prior state employment on the job applications and/or the University's statement of previous employment form but did not receive credit. The University stated that the errors occurred due to oversight at the time of initial employment. The other employee received a full month of service credit for a partial month of employment because the University used an internal methodology in place at the time of the employee's hiring in 1993.

As a result of the audit, the University corrected its internal system to include prior state service and deduct the full month of state service credit for the partial month of employment. The University compensated the employees for the underpayments of longevity pay. The University stated that it was not cost effective to recoup the overpayment of longevity pay.

When an agency hires an employee, the agency must research whether the employee has prior state service. If prior service exists, the agency must confirm the amount of lifetime service credit and properly record it or risk incorrectly paying longevity pay. See [Texas Payroll/Personnel Resource – Longevity Pay](#).



Recommendation/Requirement

The University must review the payroll/personnel records to ensure that the prior state service months are properly verified and documented for all its employees, including student employees. The University should also implement procedures to ensure that employees do not receive a full month of service credit for a partial month of employment.

University Response

Tarleton State University commits to reviewing, verifying and documenting state service for all longevity-eligible employees (budgeted staff), non-eligible employees (budgeted faculty), and at the point a non-eligible employee transitions into a longevity-eligible position (adjunct faculty, graduate assistants, student employees). The review will be based upon current calculation of state service credit as provided by the Comptroller's office, which bases eligibility for longevity on total days of service, not months of service. The review will be complete by Aug. 31, 2020.

In addition, Tarleton State University will develop a procedure supporting the state service verification process by May 31, 2019.

Travel Transactions

Auditors developed a representative sample of 30 travel transactions for \$2,089.17 to ensure the University complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Purchase/Procurement Transactions

Auditors developed a representative sample of 60 purchase/procurement transactions totaling \$468,707.52 to ensure that the University complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed the following exceptions in the purchase transactions.

Purchase Order Created after Invoice

During the review, auditors identified five transactions that were not supported by a purchase order (PO). The University's procedures require the creation of a PO prior to obtaining goods and services. In three instances, the purchase process was not followed, resulting in the purchase orders being created after the invoice. For the additional two instances, one occurred due to an issue with the University's system configuration, and the final issue occurred due to oversight. The University modified its purchasing system and instructed the accounting staff to follow the correct purchase process to ensure that these issues do not occur in the future.



A PO is a contract between the University and its vendor; expenditures under the contract may not exceed the established limit. Without a PO, it becomes difficult for the University to ensure it was not overcharged or billed for goods or services beyond those the University agreed to purchase. Without proper documentation, auditors could not determine whether the information entered into the Uniform Statewide Accounting System (USAS) was an accurate reflection of the intended purchases made. Proper 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."

All state agencies must deliver a PO to its successful goods and services vendors. The PO must include the terms, conditions and specifications with which the vendor must comply to fulfill its obligations to the University, as well as any vendor exceptions that have been accepted. The PO number must be referenced on all bills of lading, packing slips, back orders, invoices and other transaction documents.

Recommendation/Requirement

The University must ensure that documentation of the purchase is prepared at the time the goods or services are ordered from the vendor. Once the University has processed a final approved PO with the vendor, the University may not pay any amount in excess of the agreed-upon amount, unless the PO is amended due to the vendor providing a new benefit to the University.

University Response

Processes are in place at the University to issue a PO before the goods or services are received. New purchasing software is now in place to help departments process POs and route appropriately. The new procurement software aids in the monitoring of expenditures.

Missing Documentation

Auditors identified one purchase transaction for \$2,500 missing the documentation to verify goods that were purchased. The University was unable to locate the invoice needed to support the payment. According to the University, it received a copy of a purchase order and the internal form that it used to initiate the services. The vendor did not provide an official invoice for services performed.

Without proper documentation, auditors could not determine whether the information entered into USAS was an accurate reflection of the intended purchases made. Proper 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. The types of supporting documentation that the Comptroller's office may require include purchase orders, requisitions, contracts, invoices and receipts. See [34 Texas Administrative Code Section 5.51\(e\)\(2\)-\(3\)](#).

Recommendation/Requirement

The University must ensure that no payment is made without sufficient supporting documentation. The University must also ensure that it creates and maintains supporting documentation for audit review. The University should review and update its procedures for maintaining proper supporting documentation for all purchases.

University Response

The vendor was a local high school, and documentation was the form completed for the advertising at the event. This vendor does not provide invoices. The University has procedures in place to maintain proper supporting documentation for all purchases.

Comptroller Response

The Comptroller's office appreciates that the University updated its guidelines for disbursement of funds and has procedures to maintain supporting documentation for purchases. For similar situations, the University should document that specific vendors do not issue invoices.

Grant Transactions

Auditors developed a representative sample of 10 grant transactions for \$13,990.53 to ensure the University complied with state laws and regulations pertaining to grants/loans and other pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Refund of Revenue Transactions

Auditors developed a representative sample of 10 refund-of-revenue transactions for \$350,874.34 to ensure the University complied with the GAA, [eXpendit](#), 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 University'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 security can be revoked in a timely manner. Audit tests revealed no security exceptions.

Internal Control Structure

The review of the University'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 exceptions in user access.

As part of the planning process for the post-payment audit, auditors reviewed certain limitations that the University placed on its accounting staff's abilities to process expenditures. Auditors reviewed the University's security in USAS, the Texas Identification Number System (TINS) and voucher signature cards that were in effect on May 5, 2017. Auditors did not review or test any internal or compensating controls that the University might have relating to USAS or TINS security or internal transaction approvals.

The University has two employees who can process and release payments through USAS without oversight, and process and release payrolls without oversight. One of these employees could also adjust payment instructions in TINS and approve paper vouchers. According to the University, it makes every effort possible not to process documents without oversight and has internal controls to prevent this from happening. Additionally, since the time of the audit, the University has added a staff member and further separated the duties.

Auditors ran a report to determine if any of the University's payment documents processed through USAS during the audit period because of the action of only one person. The report identified 116 USAS documents totaling \$15,564,877.01 that processed without oversight. The payments were reviewed during the audit and determined to be valid expenditures.

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 enter or alter and then release payments or other accounting transactions within the statewide financial systems without another employee's involvement.

Recommendation/Requirement

The University must review the controls over expenditure processing and segregate each task to the maximum extent possible to ensure that no individual is able to process payments without oversight.



Auditors strongly recommend that the University implement the following recommendations:

- The University must limit user access to either enter/change vouchers or release/approve batches. The University must limit user access to view-only for TINS (PTINS02) users who can also enter/change vouchers or release/approve batches in USAS. An individual should not be able to create a vendor or change a vendor profile, and also create and approve a payment.
- The University must limit user access (96A screen) to either enter/change vouchers or release/approve batches. The University should elect to have the document tracking control edit on the Agency Profile (D02) set to either: 1) prevent a user from releasing a batch that the same user entered or altered for the agency, or 2) warn the user when the same user attempts to release his or her own entries or changes and have a second individual review and process those transactions. See [USAS Accounting and Payment Control \(FPP B.005\)](#).
- The University should review the preventative and detective controls over expenditure processing discussed in [FPP B.005](#), such as the Risky Document Report (DAFR9840), which identifies documents that the same user entered or altered and then released for processing.

University Response

Edits have been made to the USAS 502 screen and the field is now blank, which should cause a fatal error stopping an individual from altering and releasing the same batch. Texas A&M University System schools process payments in FAMIS and do not process payments directly in USAS. All oversight of the payment process and proper routing for approval of an expenditure is captured in the procurement system. The documents referenced had proper oversight within the the internal systems before being entered into USAS. The large dollar amount was created by payroll batches that were processed within our internal payroll system with proper oversight. Once the batches were fed into USAS, an adjustment was made to TINS in order to properly process the batch through USAS (this could be due to the employee not being in TINS before the payroll batch was released in USAS). As noted, all expenditures were valid. A review of employee access is currently in process.

Fixed Assets

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



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 Tarleton State University (University) payroll, purchase and travel transactions that processed through the USAS during the period from Dec. 1, 2015, through Nov. 30, 2016, to determine compliance with applicable state laws.

The University 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 University should implement the recommendations listed in the Detailed Findings of this report. It is the University'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 University's documents comply in the future. The University 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 course of 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

Anna Calzada, CTCD, Lead Auditor

Mayra Castillo, CTCD

Eunice Miranda, CTCD



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.