



# An Audit of **The University of Texas Southwestern Medical Center**

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# Table of Contents

## Executive Summary

Purpose and Scope .....	1
Background .....	1
Audit Results .....	1
Key Recommendations .....	2

## Detailed Findings

Payroll Transactions .....	4
Duplicate Payroll Reimbursement .....	4
Incorrect State Effective Service Date/Longevity Payment .....	5
Purchase/Procurement Transactions .....	6
Fixed Assets .....	6
Internal Control Structure .....	6
Controls Over Expenditure Processing .....	6
Security .....	7
Failure to Timely Notify Comptroller to Remove Employee from Signature Card .....	8

## Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team .....	9
Appendix 2 — Definition of Ratings .....	11



# Executive Summary

## Purpose and Scope

The objectives of The University of Texas Southwestern Medical Center's (Center) 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

The Center, one of the premier academic medical centers in the nation, integrates pioneering biomedical research with exceptional clinical care and education. The faculty of more than 2,500 is responsible for groundbreaking medical advances and is committed to translating science-driven research quickly to new clinical treatments. The Center physicians provide medical care in about 70 specialties to more than 105,000 hospitalized patients, nearly 370,000 emergency room cases and oversee approximately 3 million outpatient visits a year.

The University of Texas Southwestern Medical University website




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

## Audit Results

The Center generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with purchase transactions or property management. However, the Center should consider making improvements to its payroll, internal control structure and security processes.

The auditors reissued three findings from the last audit conducted at the Center related to payroll, internal control structure and security. Auditors originally issued these findings in August 2014. 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?	<ul style="list-style-type: none"> <li>The Center processed a reimbursement payroll document in error resulting in a duplicate reimbursement.</li> <li> One employee had an incorrect state effective service date resulting in a longevity underpayment.</li> </ul>	Compliant, Findings Issued
Purchase/ Procurement Transactions	Did purchase transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Fixed Assets	Were tested assets in their intended location, properly tagged and properly reported in the Center's internal system?	No issues	Fully Compliant
<u>Internal Control Structure</u>	Are incompatible duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	 One employee was identified with multiple incompatible duties.	Compliant, Findings Issued
<u>Security</u>	Are Center employees who are no longer employed, or whose security was revoked, properly communicated to the Comptroller's office?	 Failure to timely notify Comptroller to remove one employee from signature card.	Compliant, Findings Issued



## Key Recommendations

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

- The Center must ensure that all payroll reimbursements are reviewed properly for validity and accuracy and ensure it does not process reimbursement payroll documents in error.
- The Center must continue to review all current and new employee files for prior state service to ensure that the prior state verifications are recorded properly.





- The Center must implement additional controls over expenditure processing that segregate each accounting task to the greatest extent possible.
- The Center must ensure that employees' security revocation is sent to the Comptroller on or before the fifth day after the employee's termination.



# Detailed Findings

## Payroll Transactions

Auditors developed a representative sample totaling \$2,750,324.81 from a group of 50 employees consisting of 354 payroll transactions to ensure that the Center complied with the GAA, the [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Audit tests revealed the following exceptions in payroll transactions.

### Duplicate Payroll Reimbursement

Auditors identified a reimbursement payroll document the Center processed in error. The Center requested reimbursements for the same pay periods on two different reimbursement payroll documents. The amount of the duplicate reimbursement is \$225,910.34.

Institutions of higher education make their payroll payments to their employees from funds held in local bank accounts. After processing the payrolls from local funds, institutions of higher education process reimbursement payroll documents in the accounting system to receive the portion of payroll that can be paid from appropriated funds. The reimbursement payroll documents report the amounts paid to each employee for whom reimbursement from local funds is being requested.

The Center has a process in place where it requests an extract file from the Comptroller's office. The request dictates the criteria that the ad-hoc group should use to extract the transactions: a specific fiscal year and transaction code. The requested data consists of reimbursement transactions that have been submitted to and posted to the Uniform Statewide Accounting System (USAS) for the specific fiscal year. The Center compares the data to their system files and the resulting file is then used to prepare the reimbursement request. The Center stated that the duplicate payroll reimbursement occurred due to an isolated error in its system comparison.

### Recommendation/Requirement

The Center must ensure that all payroll reimbursements are reviewed properly for validity and accuracy and ensure it does not process reimbursement payroll documents in error. The Center must enhance its current process for preparing the reimbursement request. The Center must reimburse the state treasury in the amount of the duplicate reimbursement.



## Center Response

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*AFS has implemented a step to reconcile the electronic file to UT Southwestern's General Ledger (GL). This will assist in reducing the chances of duplicate requests or over-payments. We are also working with Information Resources to develop a tracking mechanism to identify all eligible data for submission and identify data already submitted. Additional queries will be developed and run throughout the year to provide for more analytical comparisons. An additional comparison between UTSW's data and the Comptroller's data will be done six months prior to the end of the two-year time period to double check for any duplicates. This will provide time to correct any errors not found during other procedures.*

## Incorrect State Effective Service Date/Longevity Payment

Auditors identified one employee with incorrect months of service credit in the Center's internal payroll/personnel system. The employee did not receive state service credit for previous employment at the Center and at another state agency, which resulted in a \$180 underpayment of longevity pay. The employee terminated employment with the Center in Oct. 2016.

The Center completed a longevity update project after the employee's termination, so the underpayment was not identified at that time. As a result of the audit, the Center sent the former employee correspondence regarding the underpayment of longevity pay and processed a payment to the individual.

The Center's procedures include obtaining prior state service verifications whenever an employee indicates previous state employment. When an agency hires an employee, the agency must research whether the employee has previous state employment. If prior state employment exists, the agency must confirm the amount of lifetime service credit and properly record it or run the risk of underpaying longevity pay. See [Texas Payroll/Personnel Resource – Non-Salary Payments – Longevity Pay](#).

## Recommendation/Requirement

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The Center must continue to review all current and new employee files for prior state service to ensure that the prior state verifications are recorded properly.

## Center Response

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*The verification of state service and calculation of longevity underpayment was completed prior to the audit. The underpayment was not processed for this employee since they had terminated. Going forward, the Comptroller's office resource, State of Texas Employment History Application, will be utilized to determine state agencies to be contacted to confirm prior state service. In the event of inaccurate or incomplete information provided by application, HRIS will verify prior state service with the previous employing agency or institution.*



## Purchase/Procurement Transactions

Auditors developed a representative sample of 15 purchase transactions totaling \$70,323.28 to ensure that the Center complied with the GAA, [expendit \(FPP I.005\)](#), the [State of Texas Procurement and Content Management Guide](#), relevant statutes and Comptroller requirements. Audit tests revealed no exceptions for this group of transactions.

## Fixed Assets

Auditors developed a representative sample of four transactions of fixed assets acquired by the Center during the audit period to test for proper tracking in the Center's internal system. All assets tested were in their intended location and properly tagged. Audit tests revealed no exceptions for this group of transactions.

## Internal Control Structure

### Controls Over Expenditure Processing

As part of the planning process for the post-payment audit, auditors reviewed certain limitations that the Center placed on its accounting staff's ability to process expenditures. Auditors reviewed the Center's security in USAS, in the Texas Identification Number System (TINS) and voucher signature cards that were in effect on Jan. 10, 2018.

The Center had one employee with multiple security access capabilities within USAS. The employee could process and release payments through USAS, and could process and release payrolls.

Auditors ran a report to determine whether any of the Center's payment documents processed through USAS during the audit period because of the action of only one person. There were no documents that were either entered and approved, or altered and approved, by the same person without another person's electronic oversight.

The Center will amend its procedures to ensure neither of these options are approved for one person in the future.

### Recommendation/Requirement

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





Auditors strongly recommend that the Center implement the following:

- Elect to have the document tracking control edit on the Agency Profile (D02) set to either: Prevent a user from releasing a batch that the same user entered or altered for the agency or warn the user when the same user attempts to release his or her own entries or changes. See [USAS Accounting and Payment Control \(FPP B.005\)](#).
- Review the preventive and detective controls over expenditure processing discussed in [USAS Accounting and Payment Control \(FPP B.005\)](#), such as the Risky Document Report (DAFR9840), which identifies documents that the same user entered or altered and then released for processing.
- Work with the Comptroller's office Statewide Fiscal Systems security staff to set up user profiles that separate the entry and approval of payroll transactions in USAS.

## Center Response

*The Center does have procedures in place to review for conflicts in USAS. In this instance, the access was granted to provide the ability to view appropriation balances and has since been revoked. We have already contacted the Comptroller's Appropriation Control Officer (ACO) to implement the additional controls mentioned in the recommendations. The ACO is submitting the change for Agency Profile (D02). Once the change is complete, this will implement the document tracking control edit to prevent a user from releasing a batch that the same user entered or altered across the agency (not by individual user ID). Also, the Risky Document Report (DAFR9840), which identifies documents that the same user entered or altered and then released for processing, has been implemented and we will receive the first monthly report in August. Both of these recommendations will assist in cases where an individual may need conflicting access, as it eliminates and/or reduces the risk of using that access to process transactions inappropriately.*

## Security

The audit included a security review to identify any of the Center's employees with security in USAS or on the voucher signature cards who were no longer employed or whose security had been revoked. All five employees on the Center's signature cards were reviewed, including one employee who was terminated during the audit period. 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 exceptions.



## Failure to Timely Notify Comptroller to Remove Employee from Signature Card

The Center failed to timely notify the Comptroller's office about the termination of one employee who had been designated to approve its expenditures. The request to remove the employee from the signature card was sent 184 days late. This means that the former employee 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 the terminated employee would have constituted an unapproved expenditure. Auditors researched the archived files and determined no unapproved documents were processed during the audit period. The Center has procedures to notify the security coordinator of personnel actions. The issue occurred as an exception to its procedure since the individual transferred within the Center and retained duties to assist with fiscal year-end close, financial reporting preparation and financial audit. The Center will document any exceptions to procedures in the future.

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\(k\)\(3\)\(B\)](#).

### Recommendation/Requirement

The Center must ensure compliance with the terminated employee security revocation requirements. It must also ensure that the person responsible for sending the revocation notifications to the Comptroller's office is aware of the employees' terminations on or before the date of termination and follow up with the Comptroller's office to ensure receipt of the notifications and the revocations occurred.

### Center Response

*This particular process is handled by two divisions within Accounting & Fiscal Services. The Accounting Operations division is responsible for the USAS access and the Accounting Administrative team is responsible for the signature cards. We have now coordinated the two processes by adding a step to each team's procedure requiring them to follow up with the other division to ensure all steps concerning notifications and revocations are handled at the same time and in compliance with guidelines.*



# 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),
  - Uniform Statewide Payroll/Personnel System (USPS),
  - Standardized Payroll/Personnel Report System (SPRS) or
  - 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 University of Texas Southwestern Medical Center (Center) payroll and purchase that processed through USAS from Sept. 1, 2016, through Aug. 31, 2017, to determine compliance with applicable state laws.

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

*Steve Tamez, Lead Auditor*

*Anna Calzada, CTCD*

*Jesse Ayala*

*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
Restrictions on auditor's ability to obtain sufficient evidence to complete all aspects of the audit process. Causes of restriction include but are not limited to: <ul style="list-style-type: none"><li>• Lack of appropriate and sufficient evidentiary matter.</li><li>• Restrictions on information provided to auditor.</li><li>• Destruction of records.</li></ul>	Scope Limitation

### 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.