



# An Audit of the **Texas A&M University**

**Audit Report # 711-19-01**  
**October 23, 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 Lump Sum Payment Reimbursement .....	4
Incorrect Longevity/Hazardous Duty Payment Amount .....	5
Purchase/Procurement Transactions .....	6
Contract Transactions .....	6
Payment and Travel Card Transactions .....	6
Grant Transactions .....	6
Fixed Assets .....	6
Internal Control Structure .....	6
Security .....	7
Targeted Analysis .....	7
Incomplete/Missing Direct Deposit Authorization Forms .....	7
Incorrect Texas Identification Number (TIN) Used on Payments to Service Departments .....	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 Texas A&M University (University) 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 June 1, 2017, through May 31, 2018.

## Background


Texas A&M University was established in 1876 as the state's first public institution of higher education. Located in College Station, it is the home of over 64,000 students. The University has 133 undergraduate degree programs, 175 master's degree programs, 92 doctoral degree programs and five first professional degrees.

Texas A&M University website  
<https://www.tamu.edu/>

## Audit Results

The University generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with purchase, contract, payment and travel cards, grants, security processes, systems access or property management transactions. However, the University should consider making improvements to its payroll, payments to service centers, and international automated clearing house (ACH) transaction (IAT) processes. The auditors reissued two findings from the last audit conducted at the University related to longevity pay/hazardous duty pay and direct deposits. Auditors originally issued these findings in September 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, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> <li>Incorrect lump-sum payment reimbursement.</li> <li> Incorrect longevity/hazardous duty payment amount.</li> </ul>	Compliant, Findings Issued
Purchase/Procurement Transactions	Did purchase transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Contract Transactions	Did contracts and related payments comply with the GAA, University internal policies and procedures, best practices and pertinent statutes?	No issues	Fully Compliant
Payment and Travel Card Transactions	Did payment and travel card transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Grant Transactions	Did grant payments comply with state laws and regulations pertaining to grants/loans and pertinent statutes?	No issues	Fully Compliant
Fixed Assets	Were tested assets in their intended location, properly tagged and properly reported in the University's internal system?	No issues	Fully Compliant
Internal Control Structure	Are incompatible duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	No issues	Fully Compliant



Repeat Finding





Area	Audit Question	Results	Rating
Security	Are University employees who are no longer employed, or whose security was revoked, properly communicated to the Comptroller's office?	No issues	Fully Compliant
<u>Targeted Analysis</u>	Did the University comply with the federal mandate to properly identify and handle payments involving moving funds internationally?	 Direct Deposit Authorization forms were missing or incomplete	Compliant, Findings Issued
	Did the University comply with FPP A.043 on processing third-party payments through USAS?	Auxiliary services that provide goods and services for the University did not have individual mail codes in TINS	



Repeat Finding

## Key Recommendations

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

- The University should enhance its payroll review processes to prevent incorrect payments of accrued vacation time.
- If prior state employment exists, the University must confirm the amount of lifetime service credit and properly record it or risk incorrect longevity payments.
- The University must ensure all payees who request payment by direct deposit provide the appropriate and signed Direct Deposit Authorization form with the international payments question answered. The University must also include the question about whether money will be sent out of the country in its self-service portal.
- The University must ensure payments from the state's treasury to the service centers include the proper vendor information in the Texas Identification Number System (TINS).



# Detailed Findings

## Payroll Transactions

Auditors developed a representative sample from a group of 30 employees and 157 payroll transactions totaling \$684,570.44 to ensure the University complied with the GAA, [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Audit tests revealed the following exceptions.

### Incorrect Lump-Sum Payment Reimbursement

Auditors identified one lump-sum payment with documentation that a Texas A&M System member miscalculated and overpaid an employee \$5,448.96. The employee was transferring from a vacation-accruing position to a non-accruing position. While calculating the lump-sum payment for the employee's vacation hours, the System member erroneously included four days (32 hours) for spring break. It should be noted that the initial overpayment was processed by the employee's former A&M component employer.

Typically, 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. However, if the separation from state employment involves a move to a position in a state agency that does not accrue vacation time, no hours may be added to the employee's accrued vacation time for a state or national holiday which is scheduled to fall within the period after the date of separation and during which the employee could have used the time. See Texas Government Code, Section 661.064(c).

### Recommendation/Requirement

The University should attempt to recover the amount overpaid by the employee, refund the state for the overpayment amount, and consider establishing procedures to coordinate with other Texas A&M System members on payments necessitated when employees transfer positions, to ensure that payment amounts are calculated correctly and consistently across all System members.

### University Response

*Payroll Services will have Workday Support Services send a letter periodically to all Texas A&M System Members reminding them to not include holiday pay for employees who receive lump-sum payments when transferring from a leave accruing position to a non-accruing position. Since the allocated lump-sum payment was initiated by another Texas A&M System Member and allocated across multiple members, management has determined that it would not be cost effective for Texas A&M University to recover the overpayment from the former employee.*



## Incorrect Longevity/Hazardous Duty Payment Amount

Auditors identified three out of 30 employees with incorrect state effective service dates in the University's internal payroll/personnel system. The incorrect service dates resulted in overpayments of longevity pay totaling \$60 and underpayments of hazardous duty pay totaling \$30. The University has corrected the state effective service dates in its system for the three employees.

Additionally, in a report run outside of the sample, auditors found a faculty employee receiving longevity pay. Faculty employees in full-time academic positions at an institution of higher education are not eligible for longevity pay. The University overpaid the employee \$12,542.50. As a result of this audit, effective April 1, 2019, Texas A&M University updated its system to stop longevity payments for faculty positions.

When an agency hires an employee, the agency must research whether the employee has prior state employment. If prior employment exists, the agency must confirm the amount of lifetime service credit and properly record it or risk incorrectly paying longevity pay. Also, an employee may receive longevity pay for the month in which he or she has accrued 24 months of lifetime service credit only if the employee's anniversary falls on the first workday of the month. Otherwise, the employee begins receiving longevity pay on the first of the following month. See [Texas Payroll/Personnel Resource – Non-Salary Payments – Longevity Pay](#).

## Recommendation/Requirement

The University should consider recovering the overpayment in accordance with [Texas Government Code, Chapter 666](#), unless it determines it is not cost effective to do so. The University should also enhance its procedures for verifying prior state service (including service in a position eligible for hazardous duty pay), and ensure that human resources/payroll employees are trained to record all applicable prior state service credit for each new hire.

## University Response

*All new employees now receive an automated Workday inbox item advising them to complete the state service verification process to obtain months of prior state service creditable towards vacation accruals and longevity/hazardous duty pay. Once the forms are completed and verified, the prior state service months are entered in Workday. At that time it is also determined if any corrections need to be made to vacation accruals or longevity/hazardous duty payments. All state service verifications are then placed in the imaging system. Management has determined that Texas A&M University will not recover the overpayment of longevity from its employees.*



## Purchase/Procurement Transactions

Auditors developed a representative sample of 25 purchase transactions totaling \$4,346,947.56 to ensure the University complied with the GAA, [eXpendit \(FPP I.005\)](#) and pertinent statutes. Audit tests revealed no exceptions for the group of transactions.

## Contract Transactions

Auditors reviewed the payments and monitoring process of 28 transactions for two contracts totaling \$4,839,253.41 for compliance with the GAA, the [State of Texas Procurement and Contract Management Guide](#), the University's internal policies and procedures, best practices and pertinent statutes. Audit tests revealed no exceptions for the two contracts.

## Payment and Travel Card Transactions

Auditors developed a representative sample of 20 payment card transactions totaling \$29,149.95 and 15 travel card transactions totaling \$18,409.90 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.

## Grant Transactions

Auditors developed a sample of two grant transactions totaling \$1,047,265.99 to ensure the University complied with the Texas Uniform Grant Management Standards (UGMS) and state laws and regulations pertaining to grants, loans and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

## Fixed Assets

The audit included a review of eight capital assets to test for proper tracking in the University's internal system. All assets tested were in their intended location and properly tagged.

## Internal Control Structure

The review of the University's segregation of duties was limited to obtaining reports identifying current user access. The review did not include tests of existing mitigating controls. The audit tests conducted revealed no exceptions in user access.





## Security

The audit included a security review to identify any of the University's employees with security in the Uniform Statewide Accounting System (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 no security exceptions.

## Targeted Analysis

Auditors developed a sample of reports that targeted certain GAA, [eXpendit](#) and pertinent statutes. Audit tests revealed the following exceptions.

### Incomplete/Missing Direct Deposit Authorization Forms

Auditors reviewed the University's procedures for complying with the federal mandate to properly identify and handle payments involving the international movement of funds. Three of the 10 payees selected had forms but did not select the box asking whether the money would be sent out of the country. One payee did not have a Direct Deposit Authorization form on file. The University stated that the first three instances occurred because the question was missed during vendor setup and the last instance occurred because the University did not use the direct deposit form to set up the vendor.

International automated clearing house transactions are destined for a financial institution outside the territory of the United States. Due to federal requirements mandated by the Office of Foreign Assets Control, the National Automated Clearing House Association has adopted specific rules for identifying and processing these types of direct deposit payments.

To avoid potential federal penalties, each state agency must:

- Show due diligence in the processing of all direct deposit payments.
- When possible, ensure direct deposit payments it issues to accounts at U.S. financial institutions are not ultimately being transferred to financial institutions outside of the United States.

### Recommendation/Requirement

The University must ensure all payees who request payment by direct deposit provide the appropriate, signed direct deposit authorization form, with the international payments question answered.



## University Response

---

*The vendor administration team was retrained on the importance of verifying the direct deposit form is complete prior to setting up the vendor as an ACH vendor.*

## Incorrect Texas Identification Number (TIN) Used on Payments to Service Departments

In a report generated outside of the sample, auditors identified 40 transactions totaling \$740,839.19 using incorrect TINs for payments to service centers.

The University processed the reimbursements in USAS using its own TIN instead of setting up and using the TIN of the service center as required. The University indicated it will set up numbers in TINS for each service center and begin processing those numbers through USAS by Aug. 31, 2019.

Improper processing procedures can result in the inaccurate reporting of expenditures for public information requests. See [Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements \(FPP A.043\)](#) for how state agencies and institutions of higher education must process third-party payments through USAS.

## Recommendation/Requirement

---

The University must ensure payments from the state's treasury to the service centers include the proper vendor information in TINS. Each on-campus and auxiliary enterprise service center that provides goods or services for the University must have its own individual number set up in TINS.

## University Response

---

*All service centers have been established as vendors; this was implemented A&M System-wide. As part of the ongoing audit process, we are ensuring the service center is selected as the vendor vs. using the generic TAMU vendor.*



# 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 Reporting System (SPRS),
  - Human Resource Information System (HRIS) or
  - Centralized Accounting and Payroll/Personnel System (CAPPS).
- 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 Texas A&M University (University) payroll, purchase and travel transactions that processed through USAS from June 1, 2017, through May 31, 2018, 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 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**

*Shanda Hernandez, CTCD, Lead Auditor*

*Derik Montique, CFE, CGFM, Purchase and Travel Auditor*

*Raymond McClintock, Payroll Auditor*

*Jack K. Lee, CPA, CFE, Payroll Auditor*



## 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.