



# An Audit of the University of Houston – Downtown

Audit Report # 784-20-01  
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# Executive Summary

## Purpose and Scope

The objectives of this audit were to determine whether the University of Houston – Downtown (University):

- Procured contracts according to applicable state laws and Comptroller requirements.
- Processed payments according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Maintained documentation to support those payments.
- Properly recorded capital and high-risk assets.
- Implemented appropriate security over payments.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from March 1, 2019, through Feb. 29, 2020.

## Background

In 1974, the University of Houston acquired the assets of South Texas Junior College and opened the University of Houston - Downtown College as a four-year institution.

The University is a comprehensive four-year university offering bachelor's and selected master's degree programs as well as life-long learning opportunities. The University reflects the diversity of the greater Houston area, and through its academic programs, engages with the community to address the needs and advance the development of the region.

University of Houston –  
Downtown website

<https://www.uhd.edu>

## Audit Results

The University largely complied with the General Appropriations Act (GAA), relevant statutes in the Texas Government Code and Texas Administrative Code, and Comptroller requirements. Auditors found no issues with purchase, books and travel transactions, property management, security and internal controls. However, the University should consider making improvements to its payroll, contracts and payment card processes.

Auditors did not reissue any findings from the prior audit, which was issued 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>• Over/underpayment of overtime.</li> <li>• Incorrect state effective service date/longevity and hazardous duty payment amounts.</li> </ul>	Compliant, Findings Issued
Purchase Transactions	Did purchase transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Contract and Payment Card Transactions</u>	Did payment card and contract transactions comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> <li>• Missing purchase order and receiving documentation.</li> <li>• Missing vendor compliance verifications.</li> <li>• Missing required contract clauses.</li> </ul>	Compliant, Findings Issued
Travel and Travel Card Transactions	Did travel and travel card transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Fixed Assets	Were tested assets in their intended locations and properly reported in the State Property Accounting system?	No issues	Fully Compliant
Internal Control Structure	Are 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
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





## Key Recommendations

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

- The University must review its internal controls and make necessary enhancements to prevent incorrect overtime, longevity and hazardous duty payments.
- The University must ensure no payment is made without sufficient supporting documentation and must review and update its procedures for maintaining supporting documentation for all purchases.
- The University must conduct every vendor compliance verification (VCV) search before contract award. Results from the specified website must be retained as evidence and included in the purchase/procurement file.
- The University should consult its legal counsel and ensure staff includes all Texas required contract clauses in University contract templates in order to better protect the interests of the state.



# Detailed Findings

## Payroll Transactions

Auditors developed a sample totaling \$219,990.25 from a group of 30 employees and 472 payroll transactions to ensure the University complied with the GAA, [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Audit tests revealed the following exceptions in this group of transactions. Additionally, auditors reviewed a limited sample of 10 voluntary contribution transactions with no exceptions identified.

## Over/Underpayment of Overtime

Auditors identified three transactions where a non-exempt employee's overtime payment was calculated using an incorrect hazardous duty amount. This resulted in overpayments and underpayments of overtime pay. Additionally, auditors identified one transaction where an employee was paid banked overtime but longevity was not included in the calculation, resulting in an underpayment of overtime. According to the University, this occurred due to a calculation error in the accounting system, a misunderstanding of requirements for banked overtime, and two employees with incorrect effective service dates. The University is changing its procedures for paying banked overtime and correcting the calculation error in the accounting system.

Special payments such as longevity pay, hazardous duty pay, benefit replacement pay and housing emoluments must be included in the regular rate of pay for the calculation of overtime pay. The Fair Labor Standards Act administered by the Department of Labor defines a non-exempt employee as one eligible for overtime. A non-exempt employee who physically works more than 40 hours each workweek accrues overtime hours at the rate of one-and-a-half hours for every overtime hour worked. See [Texas Payroll/Personnel Resource – Non-Salary Payments – Overtime](#).

## Recommendation/Requirement

The University must ensure it captures employees' longevity and hazardous duty amounts in its overtime pay calculations and verifies that the effective service date is correct. The University must recover the overpayments in accordance with [Texas Government Code, Chapter 666](#) and compensate the employees for the underpaid amounts.

## University Response

*In response to this audit, the University of Houston System (UHS) Payroll Office discovered that the Hazard Incentive Longevity (HIL) process was assigning an HIL row to each employee record and the amounts were added to factor into the overtime*



*calculation. However, HIL should only be applied to the employee's primary record (Empl Record 0). The UHS Payroll Office has conducted a comprehensive audit for all UHS employees to identify anyone who had HIL on any employee record other than 0 and identified 10 employees. Of those 10, only four are currently active of which two are currently in monthly positions. (Overtime is not a factor for exempt employees.) They have turned off HIL for employee records other than 0, so moving forward this will not be an issue.*

## **Incorrect State Effective Service Date/Longevity and Hazardous Duty Payment Amounts**

In the review of the payroll transactions, auditors identified four out of 30 employees with incorrect state effective service dates in the University's internal payroll/ personnel system. The University miscalculated the service dates for three employees and incorrectly gave one employee credit for non-state law enforcement experience, causing the University to incorrectly calculate lifetime service credit for these employees. Additionally, auditors identified four employees who were paid incorrect hazardous duty pay amounts for multiple pay periods during their employment. The incorrect state effective service dates and payment amounts resulted in two underpayments of longevity pay totaling \$2,840, two underpayments of hazardous duty pay totaling \$821, and five overpayments of hazardous duty pay totaling \$6,223.

The University is unsure why the payment discrepancies occurred. It is reviewing employee service dates in the system to prevent this in the future.

When an agency hires an employee, the agency must research whether the employee has prior state employment. If prior state employment exists, the agency must confirm the amount of lifetime service credit and properly record it or risk incorrect longevity and/or hazardous duty payments. Also, employees may receive longevity pay for the month in which they have accrued 24 months of lifetime service credit or hazardous duty pay for the month in which they have accrued 12 months of lifetime service credit, but only if their anniversary falls on the first day of the month. Otherwise, the employees begin receiving longevity pay on the first of the following month. See [Texas Payroll/Personnel Resource – Non-Salary Payments – Longevity Pay](#) and [Texas Payroll/Personnel Resource – Agency-Specific Provisions – Hazardous Duty Pay](#).

In a report generated outside the sample, auditors identified one full-time employee who was receiving longevity payments. This resulted in an overpayment of longevity of \$440. According to the University, the employee started receiving longevity pay in fiscal 2019 due to a clerical error. The University recovered the funds from the employee's July 2020 paycheck.

For institutions of higher education, a "full-time state employee" is one who is normally scheduled to work at least 40 hours per week in one non-academic position. See [Texas Payroll/Personnel Resource – Non-Salary Payments – Longevity Pay](#).



## Recommendation/Requirement

The University must correct the state effective service dates for the employees and its method of calculating lifetime service credit. It should also review its internal controls and make necessary enhancements to prevent incorrect longevity and hazardous duty payments. The University must recover the overpayments in accordance with [Texas Government Code, Chapter 666](#) and compensate the employees for the underpaid amounts.

## University Response

*A thorough review of employees' service dates, which triggers payment of hazardous duty and/or longevity pay, is being done to ensure all dates in PeopleSoft are correct. UHD will recover the overpayments and compensate employees for the underpaid amounts.*

## Purchase Transactions

Auditors developed a sample of 25 purchase transactions totaling \$1,423,401.08 and five book transactions totaling \$122,069.23 to ensure the University complied with the GAA, [eXpendit \(FPP I.005\)](#) and pertinent statutes. Audit tests revealed no exceptions in these transactions.

## Contract and Payment Card Transactions

Auditors selected two contracts totaling \$974,580 for review and developed a sample of five contract payments totaling \$767,390 to ensure the University complied with the GAA, [eXpendit \(FPP I.005\)](#), [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Using a report generated outside the sample, auditors also selected 10 payment card transactions totaling \$11,986.87 for testing. Audit tests revealed the following exceptions for these groups of transactions.

Contract	Amount	Type of Service	Procurement Cycle				
			Planning	Procurement Method Determination	Vendor Selection	Contract Formation/Award	Contract Management
Contract A	\$50,000	Case Management Software Hosting, Maintenance and Support	No exceptions	No exceptions	<ul style="list-style-type: none"><li>Missing purchase order and receiving documentation.</li><li>Missing vendor compliance verifications.</li><li>Missing required contract clauses.</li></ul>	No exceptions	No exceptions
Contract B	\$924,580	Electronic Database Subscription Service for Library	No exceptions	No exceptions	<ul style="list-style-type: none"><li>Missing vendor compliance verifications.</li><li>Missing required contract clauses.</li></ul>	No exceptions	No exceptions





## Missing Purchase Order and Receiving Documentation

Auditors identified one purchase transaction totaling \$1,920 that was missing a purchase order and receiving documentation for purchased services related to software user licenses. The University indicated it did not issue a purchase order or obtain receiving documentation because the user licenses were purchased for non-university employees. Without proper documentation, auditors could not determine whether the information entered in the Uniform Statewide Accounting System (USAS) was an accurate reflection of the intended purchases made. Proper documentation must be maintained to verify payments are valid and to ensure a proper audit trail.

According to [34 Texas Administrative Code Section 5.51\(c\)\(1\)\(D\)](#), each state agency, its officers and employees must maintain the necessary documentation for each purchase document to prove that each payment resulting from the document is legal, proper and fiscally responsible.

Supporting documentation including purchase orders, requisitions, contracts, invoices and receipts must be made available to the Comptroller's office in the manner required. See [34 Texas Administrative Code Section 5.51\(e\)\(2\)-\(3\)](#).

### Recommendation/Requirement

The University must ensure that it creates supporting documentation for each payment and maintains it for audit review. The University should review and update its procedures for maintaining supporting documentation for all purchases.

### University Response

*Departmental training June 9th to discuss how to process correctly in the future.*

*To ensure departmental training is effective, biannually the Exec Dir, Budget, Procurement & Contracts will review a sample of procurement files to ensure supporting documentation has been provided.*

## Missing Vendor Compliance Verifications

For two contracts and one payment card transaction, the University was unable to provide a complete checklist of vendor compliance verification (VCV) documents. The University must provide a screen print to show it performed each verification. The University indicated that it will include screen prints of the VCV in the file.

If the University does not perform the compliance checks before purchases, contract extensions or renewals, it may not be able to determine whether a vendor becomes noncompliant during the procurement process.



## Debarment Check

The University must check the Comptroller's [Debarred Vendor List](#) to establish that the vendor has not been debarred by the Statewide Procurement Division (SPD). A University may not award a contract to a debarred vendor, according to [Texas Government Code, Section 2155.077](#).

## System for Award Management Check

The University must check the [System for Award Management \(SAM\)](#) database to verify that the vendor is not excluded from grant or contract participation at the federal level. A contract cannot be awarded to a vendor named on the U.S. Treasury Department, Office of Foreign Assets Control's master list of specially designated nationals and blocked persons. See [Presidential Executive Order 13224](#).

## Iran, Sudan and Foreign Terrorist List Organization Check

Governmental entities may not contract with a company doing business with Iran, Sudan or a foreign terrorist organization. See [Texas Government Code, Sections 2252.001\(2\)](#) and [2252.152](#). Before award, the University must check the divestment lists to determine whether the potential awardee is in violation of this requirement, per [Texas Government Code, Sections 2252.153](#) and [2270.0201](#). The divestment lists are maintained by the Texas Safekeeping Trust Company and posted to the Comptroller's [Divestment Statute Lists](#). If the business is in violation, the contract may not be awarded to that vendor.

## Warrant/Payment Hold Check

The University must check a vendor's warrant hold status if the transaction involves a written contract; if payment is made with local funds; or if a payment card purchase is over \$500. See [TexPayment Resource – Hold Special Circumstances – Local Funds](#) and [Payment Card Purchases](#). The University cannot proceed with a purchase made with local funds, or a payment card purchase over \$500 until the warrant hold has been released. For transactions involving a written contract, the warrant hold check must be performed no earlier than seven days before and no later than the date of contract execution. If the vendor is on warrant hold, the University may not enter into a written contract with the person unless the contract requires the University's payments under the contract to be applied directly toward eliminating the person's debt or delinquency. The requirement specifically applies to any debt or delinquency, regardless of when it arises. Although payments made through USAS are automatically checked for holds, and the system identifies payments issued to persons with outstanding state debt, this does not relieve the University from conducting the warrant hold status check, per [Texas Government Code, Section 2252.903\(a\)](#).



## Recommendation/Requirement

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The University must conduct every VCV search before contract award and retain results from each specified website as evidence in the purchase/procurement file.

## University Response

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*Contract processors university wide training will include new contract checklist and list each vendor compliance verification and associated hyperlinks. Purchasing will include updates to pcard back-up vendor compliance verifications as well. Four training sessions are scheduled for the month of June, and will take effect for all new contracts/pcard purchases after training dates.*

## Missing Required Contract Clauses

Auditors reviewed two contracts for compliance with state and university procurement requirements. For one of the contracts reviewed, the following Texas required contract clauses ([\*State of Texas Procurement and Contract Management Guide\*](#), Appendix 22) were not found in the executed contract:

- Buy Texas Affirmation.
- Debts and Delinquencies Affirmation.
- Dispute Resolution.

According to the University, the standard contract templates include the required clauses listed above. However, it decided not to include the standard templates for this contract. The University stated that it is adjusting its procedures and providing training to the appropriate staff.

The other contract reviewed was missing the Texas required contract clause Entities that Boycott Israel. The University agrees that this clause was missing from the contract. It has implemented the use of a boycott Israel form; however, this form was not in place when the contract was executed. New procedures and training are now in place to address this issue.

Failure to include all Texas required contract clauses increases the risk that the University's contracts will be in violation of federal or state statutes and rules, which in turn increases the risk that the contracts and the University will be subject to legal challenge or regulatory action.

## Recommendation/Requirement

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The Comptroller's office recommends that the University consult its legal counsel and ensure all Texas required contract clauses are included in its contract templates to better protect the interests of the state. Any omitted required clause must have clear justification from counsel as to why it was not needed or not applicable to the particular contract and such justification must be documented in the contract file.





## University Response

*Contract processors university wide training will include importance of Texas required contract clauses and utilize a new form for departments to justify why any Texas required clauses were omitted. The justification will remain with the contract package including legal review. Training will be June 16th, 17th, 23rd, and 24th and will take effect for all new contracts after training dates, UHD Contract Administration will review all standard contract templates and work with Office of General Counsel to update other contracts as required.*

## Travel and Travel Card Transactions

Auditors developed a sample of five travel transactions totaling \$1,149.04 to ensure the University complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Using a report generated outside the sample, auditors also selected five travel card transactions totaling \$1,934.41 for testing. Audit tests revealed no exceptions for these groups of transactions.

## Fixed Assets

The audit included a review of a limited number of fixed assets acquired by expenditures during the audit period to test for accurate reporting and to verify the existence of assets. All assets tested were in their intended locations. Audit tests revealed no exceptions in these transactions.

## 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 no exceptions in user access.

## Security

The audit included a security review to identify University employees with security in USAS or on the voucher signature cards who were no longer employed or whose security had been revoked. On termination or revocation, certain deadlines must be met so security can be revoked in a timely manner. Audit tests revealed no exceptions in security.



# 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 University of Houston – Downtown (University) payroll, purchase and travel transactions that processed through USAS from March 1, 2019, through Feb. 29, 2020, to determine compliance with applicable state laws.

The University received 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 and relies on professional judgment to select areas the auditor considers high risk.

## 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

*Amanda Price, CFE, CTCD, Lead Auditor*

*Monica Garcia, CTCD*

*Jesse Ayala*





## 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.