



An Audit of **Midwestern State University**

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Executive Summary

Purpose and Scope

The objectives of this audit were to determine whether Midwestern State University (University):

- 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.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from Sept. 1, 2021, through Aug. 31, 2022.

Background

Created in 1922 as a Wichita Falls Junior College, the second municipal junior college in Texas, its earliest home was in Wichita Falls High School with which it shared both the building and faculty. Later, a legislative act and a vote of the people of Wichita Falls set up a separate tax district to support the junior college. From its beginnings as a municipal junior college housed in a high school building, Midwestern has become a state university and Texas Tech University System member whose campus of 255 acres and 70 buildings offers a wide variety of academic programs in liberal and fine arts, mathematics, sciences, business and applied sciences.

Midwestern State
University website
<https://msutexas.edu/>


Audit Results


The University generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with grant and travel card transactions. However, the University should consider making improvements to its payroll processes.

The auditors reissued one finding related to direct deposit forms. Auditors originally issued this finding on July 12, 2017, as part of the previous audit. 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">• Incorrect state effective service date/incorrect longevity payments.• Incorrect Human Resource Information System (HRIS) reporting.	Compliant, Findings Issued
Purchase/ Procurement and Payment Card	Did purchase/procurement and payment card transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Travel Card Transactions	Did travel card transactions comply with the GAA, University policies and procedures, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Grant Transactions	Did refund of revenue transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Targeted Analysis</u>	Did targeted analysis transactions comply with the GAA, pertinent statutes and Comptroller requirements?	 Missing direct deposit forms.	Compliant, Findings Issued
Fixed Assets	Were tested assets in their intended location and properly reported?	No issues	Fully Compliant

 Repeat Finding



Key Recommendations

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

- Improve its current payroll processes and include quality control measures to ensure that state effective service dates are entered correctly to prevent incorrect longevity payments.
- Ensure all required entries are reported accurately and completely to the Human Resource Information System (HRIS).
- Ensure the University's vendor and employee direct deposit authorization forms are completed and retained.



Detailed Findings

Payroll Transactions

Auditors developed a sample totaling \$145,903.56 from a group of 25 employees involving 93 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, a limited sample of 21 voluntary contributions transactions were audited with no exceptions identified.

Incorrect State Effective Service Date/Incorrect Longevity Payments

Auditors reviewed a payroll sample consisting of 25 employees. Auditors identified four instances in which the University used an incorrect effective date for state service and/or made incorrect longevity payments. Specifically, for one employee, auditors reviewed two longevity transactions, and both were underpaid. Auditors did not analyze the out-of-sample possible total underpayment for the entire time of this employee's employment with the University.

For the second employee, auditors reviewed two longevity transactions, and one was underpaid. Auditors did not analyze the out-of-sample potential underpayment for the entirety of this employee's employment with the University.

For the third employee, auditors noted the University used an incorrect effective date for state service, but the longevity transactions reviewed were correct.

For these three employees, the University was able to provide documentation showing prior periods of employment at the University. Based on the documentation, auditors determined the University granted state service credit only for the number of days actually worked within the periods of prior service. State service credit should have been granted for the entire periods of prior service.

An individual accrues lifetime service credit as long as the individual is employed by the state under Texas Government Code, Section 659.046(a)(1), even if the individual accrues lifetime service credit while not actually performing work for, or getting paid by, the state agency. See [Attorney General Opinion No. JM-0076 \(1983\)](#).

This interpretation is in line with [Attorney General Opinion No. M-984 \(1971\)](#), which states: "If there is any doubt or ambiguity in the statute calling for construction, it should be resolved in favor of the beneficiary under the well settled canon which demands a liberal construction in favor of encouraging State service by State employees."

For the fourth employee, the University paid an incorrect longevity amount. Based on an analysis of longevity payment entries from the University's accounting/payroll system, this employee had been getting the increases in longevity every two years a month too



early (i.e., a month before the employee actually completed the next multiple of two years). As a result, since at least 2009, this employee received longevity overpayments (including from the transaction that was in-sample). Due to limited data availability for years prior to 2009, auditors were unable to analyze the exact extent and amount of overpayments; however, it is highly probable that overpayments began much earlier than 2009.

The University indicated this error resulted from using an incorrect date on the calculator for state service verification for this employee.

Longevity pay is an entitlement based on total state service; it is paid to eligible employees each month in addition to base salary. Lifetime service credit reflects an employee's entire time of state service and is used to determine the amount of longevity pay an individual may be eligible to receive. The amount of lifetime service credit accrued by a state employee is the sum of the number of days served during each period of state employment. An employee's state service effective date is derived by subtracting the total days of lifetime service credit from the most recent employment date. The state service effective date is used to determine when longevity pay is to be increased. See [Texas Payroll/Personnel Resource – Non-Salary Payments – Longevity Pay](#) and [Texas Payroll/Personnel Resource – General Provisions – Lifetime Service Credit](#).

Recommendation/Requirement

The University must track and document the exact starting and ending dates of all periods of state employment for each of its employees. This includes periods of employment at the University itself, or at other institutions of higher education, which might be considered casual and therefore not reported to the personnel action records of HRIS. The University must correctly calculate lifetime service credit, which should be granted for each day the individual is employed by the state even if no actual work is performed and must adjust the state service effective date accordingly. Based on the lifetime service credit, the University must then ensure that longevity payments are correct by using an accurate state service effective date in its accounting/payroll system.

The University must determine whether funds should be recovered from the employee with longevity over payments. See [34 Texas Administrative Code Section 5.40\(c\)](#), [Texas Government Code, Chapter 666](#) and [Texas Payroll/Personnel Resource – General Provisions – Overpayments](#).

University Response

State service is verified by current or previous state agencies or institutions of higher education. Lifetime service credit is calculated by using the roll back method from the hire date. This service date is entered in to our Banner system to calculate longevity payments.



The two longevity underpayment findings will be compensated to each employee during the January 2024 payroll process. We will not seek recoupment from the employee for the one longevity overpayment finding.

Incorrect HRIS Reporting

Auditors found instances of incorrect HRIS reporting for 24 out of 25 employees in the payroll sample. Specifically, the University did not report pay rate increases that took effect on Sept. 1, 2021, for these 24 employees.

Instead of using HRIS Reason Code 932 (with which the University could have reported both the pay rate increase and the re-appointment for the new fiscal year, with the same effective date), the University used Reason Code 900 (which is for reporting the re-appointment only). See *Reason Code Resources and Classification Salary Schedules* (FPP R.022): [Reason Code Definitions and Restrictions for Institutions of Higher Education](#).

According to the University, this error occurred due to system limitations. Since the Sept. 1 electronic personnel action forms (EPAF) are created through the Salary Planner process, there is only one option that can be used for all employees (it cannot be done individually). The University indicated it is currently researching how/where it can change this code going forward.

Auditors further noted that three out of these 24 employees also had promotions that were not reported in HRIS. Promotions are personnel actions that must be reported using Reason Code 920. In one of these three instances, the University reported the promotion using Reason Code 038, which is used to update employee descriptive/job data but does not allow for a change in pay rate. The 038 entry was reported with a July 1, 2021, effective date, when in fact the EPAF had indicated a June 15, 2021, effective date. In the other two instances, the promotion was not reported at all.

According to the University, this also occurred due to system limitations. The EPAF for the change in position was created after the June payroll was processed. The University can only create an EPAF with a date after the last paid date (June 30); therefore, the EPAF had a July 1, 2021, start date with a comment that the change actually took effect on June 15, 2021. As a result, the system picked up the July 1, 2021, date on the file that was transmitted to HRIS.

One employee out of the original sample of 25 was a student worker whom the University considered to be a temporary/casual worker. As such, the University was not required to report this individual's personnel actions to HRIS. However, the University is required to report this individual's payroll transactions and entitlements to HRIS, using entitlement code TSK. The University did not do so. See [HRIS Reporting Requirements – Higher Education \(FPP M.005\): Chapter 2 – Reporting Personnel and Payroll Data](#).



According to the University, it misunderstood the rule in [FPP M.005](#) that allowed limited reporting of personnel actions for temporary employees. The University believed that no reporting was required at all for temporary employees.

In addition, auditors noted two employees had inconsistent effective dates reported in HRIS. Upon initial hire, institutions of higher education should report the personnel action of "new employee acquisition" using Reason Code 010, and the action of "new job appointment" using Reason Code 900. These two actions must have the same effective date. For the two employees in question, the University used different effective dates.

According to the University, these issues were most likely operator errors. Since these entries occurred many years ago, it is unable to determine exactly what happened.

Auditors also noted two instances in which the University used the incorrect comptroller object. Specifically, these two employees were promoted to FLSA-exempt positions that required their banked overtime be paid out in cash. The University coded the overtime payments with comptroller object 7015 in one case and 7010 in another and combined them with the base salary payments. When paying overtime, state agencies and institutions of higher education must use comptroller object 7021. Overtime payments must be entered separately from base salary payments.

Recommendation/Requirement

The University must review and modify its system processes, and provide training to relevant personnel, to ensure that all required entries in HRIS are reported accurately and completely. HRIS reporting for personnel actions and pay rate changes must use the correct reason codes and effective dates. HRIS reporting for payroll transactions and entitlements must be done for all employees, regardless of employment type (regular vs. casual) and funding source (state funds vs. non-state funds).

University Response

System processes have been reviewed. The Budget Office will include the "932" code during budget development, when applicable, for future uploads to the payroll system. Training documents will be utilized to ensure required entries in HRIS are reported accurately and completely.

Purchase/Procurement and Payment Card Transactions

Auditors developed a sample of 25 purchase transactions totaling \$1,011,178.08 and 10 payment card transactions totaling \$4,815.16 to ensure the University complied with the GAA, University policies and procedures, and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.



Travel Card Transactions

Auditors developed a sample of five travel card transactions totaling \$282.40 to ensure the University complied with the GAA, University policies and procedures, and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Grant Transactions

Auditors reviewed one refund of revenue transaction submitted for reimbursement totaling \$157,000 to ensure the University complied with the GAA, University policies and procedures, and pertinent statutes. Audit tests revealed no exceptions for this group 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 location and properly recorded. Audit tests revealed no exceptions in these transactions.

Targeted Analysis

The audit included targeted analyses outside the main samples of payroll, purchase and travel transactions. Using the Uniform Statewide Accounting System (USAS), Citibank or other systems accessible by the Comptroller's office, auditors generated several special reports to analyze additional processes relevant to the audited entity. Such processes may include interagency transfers, refunds to payroll, proper coding of payment card transactions, and others. Audit tests revealed the following exception in the University's targeted analysis reports.

Missing Direct Deposit Authorization Forms

Auditors conducted a review of the University's procedures to comply with the federal mandate to properly identify and handle payments involving moving funds internationally. Of the four vendors and employees selected for review, three direct deposit forms were missing. The University tried to locate the forms but was not successful. Without a form on file, the University was unable to indicate whether state funds were forwarded to a financial institution outside 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 on the identification and processing of International Automated Clearing House transactions. To avoid potential federal penalties, each state agency must:



- Be able to show due diligence in the processing of all direct deposit payments.
- Do its best to ensure direct deposit payments issued to accounts at U.S. financial institutions are not ultimately being transferred to financial institutions outside the United States.

Recommendation/Requirement

The University must review and modify its processes to ensure it maintains the required direct deposit forms for employees and vendors to ensure the federal requirements mandated by the Office of Foreign Assets Control are being followed.

University Response

All direct deposit forms are now stored electronically and filed by vendor for both initial direct deposit enrollments as well as any subsequent vendor change requests. The forms are encrypted and stored securely, and only staff that have security to make direct deposit changes in TINS have access to the electronic storage location.



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
 - The 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 Midwestern State University (University) payroll, purchase and grant transactions that processed through USAS from Sept. 1, 2021, through Aug. 31, 2022, 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 the University's documents comply in the future. The University must ensure 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

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Appendix 2 — Definition of Ratings


Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Noncompliant
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">Lack of appropriate and sufficient evidentiary matter.Restrictions on information provided to auditor.Destruction of records.	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.