An Audit of the

University of Texas Southwestern Medical Center

Audit Report #729-24-01

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Glenn Hegar

Texas Comptroller of Public Accounts

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Executive Summary

Purpose and Scope

The objectives of this audit were to determine whether the University of Texas Southwestern Medical Center (Center):

- 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.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from June 1, 2022, through May 31, 2023.

Background

University of Texas Southwestern Medical Center website
https://www.utsouthwestern.edu/

Formed in 1943, Southwestern Medical School has grown from a small wartime medical college into UT Southwestern Medical Center, a multifaceted academic institution nationally recognized for its excellence in educating physicians, biomedical scientists, and health care personnel. The Center's mission is promoting health and a healthy society that enables individuals to achieve their full potential through education, medical research, and providing quality health care. The Center's core values are excellence, innovation, teamwork, and compassion.

Audit Results

The Center generally complied with the General Appropriations Act (GAA), relevant statutes, and Comptroller requirements. The Center should consider making improvements to its payroll, purchase/procurement, payment card and travel, and capital assets recording processes.

Auditors did not reissue any findings from the previous audit issued in August 2019. An overview of audit results is presented in the following table.

Table Summary

Area	Audit Question	Results	Rating
Payroll Transactions	Did payroll transactions comply with the GAA, pertinent statutes, and Comptroller requirements?	• Missing approvals for salary actions. • Incorrect payment of overtime. • Missing payroll deduction form. • Missing statutory authority for reimbursement. • Missing benefit replacement pay documentation. • Missing dual or multiple employment notification forms.	Compliant, Findings Issued
Purchase/ Procurement and Payment Card Transactions	Did purchase, payment card and contract transactions comply with the GAA, pertinent statutes, and Comptroller requirements?	• Missing documentation. • Missing vendor compliance verifications. • Failure to report to the Legislative Budget Board. • Missing statutory authority for purchase.	Compliant, Findings Issued
Travel and Travel Card Transactions	Did travel and travel card transactions comply with the GAA, pertinent statutes, and Comptroller requirements?	• Comptroller approval of travel voucher not obtained. • Lodging reimbursement exceeds the GSA rate. • Gratuities not payable. • Missing cost comparisons for transportation expenses. • Reimbursement of unallowable meal expense.	Compliant, Findings Issued
Fixed Assets	Were tested assets in their intended location and properly reported in the Center's inventory system?	Proof of annual review of capital assets not provided	Compliant, Findings Issued
Targeted Analysis	Did targeted analysis transactions comply with the GAA, pertinent statutes, and Comptroller requirements?	• Incorrect comptroller object. • Incorrect billing account number. • Incorrect Texas identification number used.	Compliant, Findings Issued

Key Recommendations

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

- The Center should improve its payroll and human resources policies and procedures to ensure:
    - Salary actions are approved timely, and approvals are documented before the change takes effect.
    - Its overtime calculation process includes eligible entitlement amounts in the regular pay rate.
    - It maintains required documentation for all employee payroll deductions.
    - All payroll reimbursements are reviewed properly for validity and accuracy to comply with all applicable statutes and regulations.
    - It obtains and reviews the State Employees Employed by More than One State Agency report and coordinates with other state agencies or institutions of higher education to ensure dually employed employees are, and have been, properly compensated.
- The Center must not make payments for goods or services without adequate supporting documentation to justify and validate each purchase.
- Invoices must have enough detail to show that the payments being made are in line with the contract terms.
- Document and retain confirmation that goods and services were received as expected.
- The Center must conduct all vendor compliance verifications (VCVs) before any purchase, contract award, extension, or renewal.
- Report all contract awards and purchases valued over $50,000 to the Legislative Budget Board (LBB).
- Update its policies and procedures to ensure it does not purchase goods or services it does not have statutory authority to purchase.
- Obtain written approval for its travel voucher from the Comptroller's Expenditure Assistance division.
- Ensure all travel expense claims are thoroughly reviewed for legality and accuracy before payment.
- Ensure travel expenditures are fiscally responsible and comply with General Services Administration (GSA) rates and that gratuities are not paid with state funds.
- Ensure that a cost comparison between different travel arrangements and methods of transportation is performed, when applicable, and documented in the travel file.

- Provide training for the individuals who review travel vouchers to ensure all travel expense claims are accurately reviewed for legality and accuracy prior to payment.
- Update its policy for monitoring capital assets and performing periodic reviews.
- Ensure its employees are trained on the proper use of comptroller objects.
- Ensure payments for third-party transactions are processed in accordance with Comptroller policies and procedures.

Detailed Findings

Payroll Transactions

Auditors developed a sample totaling $542,576.17 from a group of 25 employees involving 140 payroll transactions and five employee relocation reimbursement transactions totaling $39,421.31 to ensure the Center 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 17 voluntary contributions transactions were audited with one exception identified.

Missing Approvals for Salary Actions

Auditors identified nine instances where the Center did not provide evidence that the employee salary action and compensation was accurate, proper, and appropriately authorized by its management. In addition, auditors identified one transaction where the Center could not provide the proper documentation and approvals for a lump sum incentive payment for an employee. According to the Center, it was unable to locate the approval documentation for these transactions.

Without documentation to support the employee salary actions and compensation, auditors could not determine whether these salary actions and payments were accurate, proper, or approved by an authorized individual. Agencies are required to maintain consistent documentation to support the legality, propriety, and fiscal responsibility of each payment made from appropriated funds. The Comptroller's office may require the documentation to be made available during a post-payment audit, pre-payment audit, or at any other time. See **Texas Payroll/Personnel Resource – General Provisions – Required Documentation**.

Recommendation/Requirement

The Center should improve its payroll and human resources policies and procedures to ensure salary actions are approved by management timely and that approvals are documented before the change takes effect.

Center Response

Human Resources and the Office of the Provost will establish standard operating procedures for all salary actions at UTSW. These procedures will require all salary actions are approved by management prior to any salary adjustments are entered into PeopleSoft.

Incorrect Payment of Overtime

Auditors identified 16 instances where seven employee's overtime payments were not calculated correctly. The 16 instances included 10 overpayments and six underpayments of overtime. The Center is using a weekly calculation for overtime that is outlined in the Fair Labor Standards Act (FLSA). However, when the weekly calculation is used, the Center should have annualized the longevity/hazardous duty pay amounts to arrive at a weekly amount for these benefits to be used in the calculation of the regular pay rate and the overtime payment for each week. Instead, it was including the full monthly longevity/hazardous duty pay amounts in the calculation of the regular pay rate for the week in which the overtime benefit was paid. As a result, overtime was overpaid in the weeks the benefit was included and underpaid in the weeks it was not. See **29 Code of Federal Regulations (CFR) Section §778.110(b)**.

Special payments such as longevity pay, hazardous duty pay, benefit replacement pay, and housing emoluments must be included in the regular pay rate for the calculation of overtime pay. See **Texas Payroll/Personnel Resource – Non-Salary Payments – Overtime**.

Recommendation/Requirement

The Center must enhance its overtime calculation process to ensure it includes eligible entitlement amounts in the regular pay rate for the calculation of overtime pay, specifically longevity pay. The Center must compensate employees for any underpaid amounts and collect the overpayment amounts if it is cost effective to do so.

Center Response

UT Southwestern will enhance its overtime calculation process by multiplying the monthly longevity amount by 12 (months) and divide by 52 (weeks).

Human Resources will partner with IT Resources to update the arithmetic calculation in PeopleSoft to use the weekly longevity rate to calculate the weekly RRP.

Human Resources is working in conjunction with Legal Affairs to determine if the overpayment amounts are cost effective to recover. In addition, Human Resources is working to identify any underpayments of overtime to employees and will compensate them for any amounts identified.

Missing Payroll Deduction Form

The Center was unable to provide the deduction authorization forms for seven employees. According to the Center, it was unable to locate the deduction forms and reached out to the employees to verify the validity of the deduction. While all employees acknowledged that they were aware of the deductions and had approved them at some point, they requested them to stop. These deductions were set up prior to implementation of the current payroll system.

A payroll deduction authorizes part of an employee's pay to be diverted to items such as credit union dues, charitable contributions, and certain contributions related to retirement and insurance. Employees must authorize these types of deductions in writing and may terminate them at any time. See **Texas Payroll/Personnel Resource – Voluntary Deductions**.

Agencies must maintain such authorizations to support the legality, propriety, and fiscal responsibility of payments made from the agency's funds. Payroll deduction authorizations are listed as required documentation to be kept. See **Texas Payroll/Personnel Resource – Required Documentation**. The Comptroller may require the documentation during a post-payment audit, pre-payment audit or at any other time.

Recommendation/Requirement

The Center must enhance internal controls to ensure it maintains required documentation for all employee payroll deductions. See **34 Texas Administrative Code Section 5.47(b)**. Staff should review personnel files for compliance with record retention requirements before archiving. The Center should contact its employees annually to confirm continuing voluntary deductions.

Center Response

Organization (union) dues were deactivated for all employees. SECC is voluntarily initiated by the employee through PeopleSoft Employee Self Service each year. A workflow is now utilized through PeopleSoft for auditing and tracking purposes.

UTSW Employees are notified and able to elect to contribute each year to SECC. If the donation is not renewed by the due date, the deductions will not continue the following calendar year.

Missing Statutory Authority for Reimbursement

Auditors identified five employee transactions (out of a total population of 25 transactions) whose relocation reimbursements totaling $39,421.31 were paid using appropriated funds. The Center provided a copy of the offer letter to the employees. The letter indicates that the offer is not for a current employee relocating to a different duty station but for a new employee relocating for new employment with the Center. As a result, auditors expanded the sample to include the remaining 20 transactions of the population processed during the audit period, totaling $52,775.75 and found that those were also for new employees. The Center indicated that these transactions were charged to appropriated funds in error. The code for relocation expenses was not properly blocked from being charged to appropriated funds in the system. The Center has corrected this and believes this should not be an issue in the future.

Under **Government Code, Section 2113.204**, and **eXpendit – State Employees – Moving Expenses**, institutions of higher education do not have the authority and are prohibited from using appropriated funds to make payments that are characterized as relocation expenses for a new employee.

Recommendation/Requirement

The Center must ensure that all reimbursements are reviewed properly for validity and accuracy and must ensure it is compliant with all applicable statutes and regulations. In addition, the funds should be returned to the state treasury.

Center Response

We have implemented a secondary review of all expenses prior to submitting into USAS. The AFS staff responsible for reviewing have attended the Comptroller training classes to ensure they are familiar with the rules. We will require refresher training every two to three years to ensure they stay current. We are making the corrections and returning funds to the grant for non-compliant expenses.

Missing Benefit Replacement Pay Documentation

Auditors identified two employees in a report generated outside the payroll sample who were eligible to receive benefit replacement pay (BRP). For one employee, the Center verified the prior state service and BRP from the transferring state agency and the transferring agency stated that the employee was receiving BRP, but the Center took no action upon receipt; therefore, the employee is owed $11,343.75. For the second employee, the Center was unable to provide documentation that the employee was receiving BRP as part of the employee's salary; therefore, the employee is owed $9,306.09.

The 74th Legislature implemented Senate Bill 102, which eliminated the state-paid portion of the employee contribution to Social Security for wages paid after Dec. 31, 1995. Beginning with wages paid Jan. 1, 1996, state-paid Social Security ceased, and eligible employees began receiving a "benefit replacement pay" increase in compensation to offset the loss of the state-paid Social Security. As per **Texas Payroll/Personnel Resource – Institution of Higher Education Provisions – Benefit Replacement Pay for Institutions of Higher Education**, institutions of higher education must keep sufficient records to prove this requirement is met and make those records available to the Comptroller's office upon request.

Recommendation/Requirement

The Center must ensure employees entitled to receive BRP receive it. The Center should review and update its policies for documenting and tracking BRP to ensure eligible employees are receiving their benefits. The Center must compensate employees for the BRP underpaid amounts.

Center Response

HR Services process: Upon employment offer, HR Services will review new hires/re-hires with prior UT System and State Service. Any employees with employment from UT System/State service on/before Aug. 31, 1995 will be reviewed for eligibility for Benefits Replacement Pay.

Employees identified with UT System/State service on/before Aug. 31, 1995 will be sent to HR-Compensation for review for Benefits Retirement Pay.

Human Resources Compensation process: Based on the criteria outlined by the BRP guidelines, Compensation will determine BRP eligibility. If the employee(s) is warranted Benefits Retirement Pay, Compensation will ensure their base compensation is inclusive of BRP. Compensation will provide a memo notifying the employee of BRP eligibility and the amount included in their base pay. Compensation will maintain a list of employees receiving BRP, the amounts awarded, and the effective date.

HR Services process: Once base compensation is determined and received by Compensation, base salary will be adjusted and entered in PeopleSoft which will include BRP.

HR Services will conduct an audit to determine all UTSW eligible employees are receiving BRP pay. Human Resources will update standard operating procedures and track BRP eligible employees.

Missing Dual or Multiple Employment Notification Forms

Auditors identified 16 employees who were missing dual employment notification forms informing the Center about their employment with another state agency or institution of higher education. Auditors also identified 18 employees who notified the Center of their secondary employment but were not approved by the supervisor/manager. In addition, auditors found that the Center did not coordinate overtime with the secondary employment (state agency) for 30 employees. As per the Center's internal policy, EMP-159 Employment in Multiple State Positions, an employee requests approval for any outside employment, including with another state agency or institution of higher education, as required by policy EMP-158 Outside Activities and Conflict of Commitment. After the request is submitted, the human resources department ensures compliance with applicable laws; notifies employees of the provision of this policy as appropriate; ensures appropriate coordination with other state agencies or institutions of higher education where the individual is employed. According to the Center, it failed to establish operating procedures for dual employment.

Texas state government is considered a single employer. While one state agency may classify an employee as Fair Labor Standards Act (FLSA)-exempt, another agency may classify the employee as non-exempt. In that case, the non-exempt classification prevails. If such an employee works more than 40 hours in a week among all state agencies, the employee must be paid overtime. If a person is employed at multiple state agencies, coordination and communication are necessary so that all agencies are aware of how the other agencies are classifying that employee, how many hours the employee works at each agency, and who will be responsible for what share of any resulting overtime pay. This is also important to prevent employees from receiving leave accruals and other benefits more than once. The ***Statewide Payroll/Personnel Reports Guide*** **(FPP D.002)** describes how human resources information on all state employees must be submitted to the Comptroller.

Recommendation/Requirement

To avoid the potential for not compensating an employee appropriately, auditors recommend the Center routinely obtain and review the **State Employees Employed by More than One State Agency** report and coordinate with the other agencies or institutions of higher education to ensure dually employed employees are, and have been, properly compensated. See **Texas Government Code, Chapter 667 (Multiple Employments with State)**. In addition, the Center must ensure its employees are aware of and follow the Center's internal policies or procedures.

Center Response

Initial Process: UT Southwestern will utilize state Dual Employment report to identify which UTSW employees are currently employed at other state agencies. HR will communicate directly to employees to receive a completed dual employment form (if not already obtained). Human Resources will also partner with the Conflict of Interest Office to receive employee names who have signed a COI and develop an internal process. HR will continue to run Dual Employment report on a monthly basis.

In addition to monthly report, UTSW will add question to employment application: "Are you currently employed at a state agency?" Yes/No. "If yes, and are selected for this position, will you continue your employment at your current state agency while employed at UT Southwestern?" Yes/No. Talent Acquisition Partners will review these responses and discuss during prescreening to validate. UTSW will also add the following questions to the onboarding portal once an offer is accepted: "Are you currently employed at a state agency?" Yes/No. "If yes, do you plan to continue your employment at your current state agency while employed at UT Southwestern?" Yes/No. If a new employee is hired and employed at another state agency, HR Services will work with other state agency to ensure accurate pay, including ensuring overtime is paid by appropriate institution on a monthly basis.

Existing University policies (EMP-158 Outside Activities and EMP-159 Employment in Multiple State Positions) require existing employees to report and obtain approval from both our Conflicts of Interest office and Human Resources if they intend to accept employment at another state institution. We recently revised those policies to further clarify that requirement. In addition, we intend to add a brief, specific review of the requirements of University policy and Texas law regarding employment in multiple state positions to our annual compliance training required of all University employees.

Purchase/Procurement and Payment Card Transactions

Auditors developed a sample of 15 purchase transactions totaling $3,231,755.14 and 26 payment card transactions totaling $1,127,972.26 to ensure the Center complied with the GAA, ***eXpendit* (FPP I.005)**, the Center's internal policies, and pertinent statutes. Audit tests revealed the following exceptions in these transactions.

Missing Documentation

Auditors identified two purchase and two payment card transactions that were missing supporting documentation. One purchase transaction was missing the purchase order (PO) approval workflow from the accounting system and the other purchase transaction was missing the breakdown of costs on the invoice. As a result, the auditors were unable to determine if the amount billed for hours worked was correct and/or which of the two payment rates included in the contract were used in the calculation. The two payment card transactions were missing the receiving documentation. Without complete documentation, auditors could not determine whether all goods and services purchased were received as expected/billed.

Standard business practices and internal controls for ensuring payments are valid require adequate separation of duties in the purchasing process and a comparison (three-way match) of:

- Ordering information (PO).
- Billed amounts (vendor invoice).
- Confirmation that all goods and services were received as expected (receiving report).

If the Center does not perform the confirmation, it risks receiving incomplete orders or items purchased for personal or non-agency use. Examples of required documentation include POs, requisitions, contracts, invoices, receipts, and receiving reports.

According to **34 Texas Administrative Code Section 5.51(c)(1)(D)**, it is the responsibility of a state agency and its officers and employees to ensure that for each purchase document, the agency maintains necessary documentation to prove each payment resulting from the document is legal, proper, and fiscally responsible. The

Comptroller's office **eXpendit – Retention Requirements Concerning Supporting Documentation** explains the type of documentation needed to support each payment depends on the type of claim paid.

Recommendation/Requirement

The Center must not make payments for goods or services without adequate supporting documentation to justify and validate each purchase. Invoices must have enough detail to show that the payments being made are in line with the contract terms. An employee independent from the purchasing process should confirm that goods and services were received as expected and should retain the confirmation in agency records.

Center Response

OneCard process currently doesn't require the departments to come back into the system to provide receipt as that is not industry standards as purchases not received are dealt with by either contacting the vendor and receiving the goods ordered or obtaining a refund. This is best business practice for credit cards. We will work with card holders to encourage them to indicate receipt of goods at the time the charge is processed. We are drafting the communication and training classes. All should be completed, approved, and implemented by December 2025.

Missing Vendor Compliance Verifications

The Center was unable to provide documentation that it performed the vendor compliance verifications (VCVs) for seven purchase and 20 payment card transactions reviewed. The Center must provide dated proof to show it performed each VCV. When vendors are not verified prior to purchase or contract award, there is a risk of conducting business with unauthorized vendors or issuing payments to vendors who owe money to the state. According to the Center, the warrant hold requirement was overlooked and will be communicated to its payment card users. The other checks are run using vendor compliance software and the Center is updating its process to ensure all required checks are included when a vendor is added to the system.

Iran, Sudan, and Foreign Terrorist Organization List Check

The Center did not perform the Iran, Sudan, and foreign terrorist organization check for seven purchase transactions before procuring the services. While proof of some of the required verifications was provided, this check was not included in the list of verifications the Center chose to be run by the software system it uses. Government entities may not contract with a company doing business with Iran, Sudan, or a foreign terrorist organization, per **Texas Government Code, Section 2252.001**, **2252.151(4)** and **2252.152**. Before award, the Center must check the divestment lists to confirm the potential awardee is not in violation of this requirement, per **Texas Government Code, Section 2252.152**. The divestment lists are maintained by the Texas Treasury Safekeeping Trust Company and posted to the Comptroller's **Divestment Statute Lists**. If the vendor is in violation, the Center may not award the contract to that vendor.

Office of Foreign Assets Control Check

Auditors noted that the Center did not search the Office of Foreign Assets Control (OFAC) master list for two purchase transactions before procuring the goods or services. While proof of the required verification was provided, this check for these vendors was done after the purchase was made and/or the contract was executed. The Center must check the OFAC master list prior to a purchase or contract execution to verify that the vendor is not excluded from contract participation at the federal level. A contract cannot be awarded to a vendor named on the U.S. Treasury Department, OFAC master list of specially designated nationals and blocked persons (with limited exceptions set forth in **Presidential Executive Order 13224**).

Warrant Hold Check

Auditors identified 20 payment card transactions where the Center did not document the verification of the vendor's warrant hold status before making a purchase. The Center must check warrant hold if a payment card purchase is over $500.

Texas Government Code, Section 2252.903 requires agencies to verify a person's warrant hold status if payments under a contract will be made with local funds or involve payment card purchases over $500. See **TexPayment Resource – Hold Special Circumstances – Payment Card Purchases**.

Recommendation/Requirement

The Center must conduct all VCVs before any purchase, contract award, extension, or renewal. The Center must retain results from each specified website and include them as evidence in the procurement file.

Center Response

UTSW will ensure the proper VCVs are done prior to purchase, contract award, extension, or renewal. Documentation of the results will be maintained in the procurement file. We are in the process of creating a new vendor hold verification process for credit card purchases.

Failure to Report to the Legislative Budget Board

Auditors identified six purchase transactions where the Center failed to report the purchase or contract to the Legislative Budget Board (LBB). The Center stated it believed these transactions were exempt from reporting due to the nature of the purchase/contracts. However, according to **GAA, Article IX, Section 7.04**, a state agency or institution of higher education must report all contracts over $50,000 to the LBB. All of the transactions in question were either over $50,000 or the contract value was over that amount.

Recommendation/Requirement

The Center must report contract awards and purchases, as applicable, to the LBB to comply with **GAA, Article IX, Section 7.04** and **LBB Contract Reporting Guide**.

Center Response

SCM has reported all applicable contract awards and purchases and will address the LBB Vendor Identification item.

Missing Statutory Authority for Purchase

Auditors identified four payment card transactions where the Center purchased items that are not allowable with appropriated funds. Two transactions were for gift cards for patient participation in research studies, one was for food for employees, and one was for book publishing expenses for a faculty member. The Center requested reimbursement for these transactions from higher education funds without having statutory authority to do so. See **eXpendit – General Provisions – Responsibilities of State Agencies – Statutory Authority for Purchases**.

Recommendation/Requirement

The Center must update its policies and procedures to ensure that it does not purchase goods or services with appropriated funds that it does not have statutory authority to purchase. In addition, the funds should be returned to the state treasury.

Center Response

We have implemented a secondary review of all expenses prior to submitting into USAS. The AFS staff responsible for reviewing have attended the Comptroller training classes to ensure they are familiar with the rules. We will require refresher training every two to three years to ensure they stay current.

We are calculating the overpayment amounts and will reimburse the state grant for any over payments.

Travel and Travel Card Transactions

Auditors developed a sample of 10 travel transactions totaling $7,484.96 and 13 travel card transactions totaling $3,191.77 to ensure the Center complied with the GAA, **Textravel (FPP G.005)**, the Center's internal policies, and pertinent statutes. Audit tests revealed the following exceptions for this group of transactions.

Comptroller Approval of Travel Voucher Not Obtained

The Center uses its own travel voucher form and could not provide supporting documentation of the Comptroller's approval of its form. The Center's form lacks multiple pieces of information required by the Comptroller and necessary to determine the validity of the payment.

Any travel voucher other than the official Comptroller travel voucher must be approved by the Comptroller's Expenditure Assistance division before use. Agencies must retain documentation of this approval in their files. The Center indicated that this error occurred because it does not normally allow travel on state funds. It obtained a state grant and did not understand it had to follow state travel rules for travel expenses relating to this grant. As a result, the Center used its internal procedures for payment instead of the state of Texas rules for employee travel. The Center stated that it was not aware that an alternate travel voucher required Comptroller approval.

See **Textravel – Documentation Requirements – General Provisions – Alternative Travel Voucher**, See also **Texas Government Code, Section 660.027(c)–(e)**.

Recommendation/Requirement

The Center must obtain written approval for its travel voucher from the Comptroller's Expenditure Assistance division and must retain a copy of such written approval.

Center Response

We are currently working on how to most efficiently address the need for a State Travel Voucher. We will work with the impacted departments to have them fill out a State Travel Voucher (with AFS assistance) and attach to the PS travel expense form until a final solution is implemented.

Lodging Reimbursement Exceeds GSA Rate

Auditors identified five travel transactions where employees incurred lodging expenses that exceeded the allowable rate for the location based on the General Services Administration (GSA) rate. Four of the transactions were prepaid using the Center's travel credit card. The employee was reimbursed for the fifth transaction. The Center indicated that this error occurred because it does not normally allow travel on state funds. It obtained a state grant and did not understand it had to follow state travel rules for travel expenses relating to this grant. As a result, the Center used its internal procedures for payment instead of the state of Texas rules for employee travel.

Texas Government Code, Section 660.007(a) requires a state agency to minimize the amount of travel expenses paid or reimbursed by the agency. The agency must ensure each travel arrangement is the most cost effective considering all relevant circumstances. Additionally, agencies must use the federal rates provided by the GSA for both in-state and out-of-state travel. See **TexTravel – Meals and Lodging – Lodging – Lodging Reimbursements**.

Recommendation/Requirement

The Center must exercise caution in its use of state funds and ensure those expenditures are fiscally responsible and in compliance with GSA rates. In addition, the funds should be returned to the state treasury.

Center Response

We have implemented a secondary review of all expenses prior to submitting into USAS. The AFS staff responsible for reviewing have attended the Comptroller training classes to ensure they are familiar with the rules. We will require refresher training every two to three years to ensure they stay current.

We are calculating the overpayment amounts and will reimburse the state grant for any over payments.

Gratuities Not Payable

Auditors identified six travel transactions where a traveler was reimbursed for a gratuity paid while dining out. **Texas Constitution, Article III, Section 51**, prohibits the use of the state's money for private purposes, including gratuities. See **Textravel – Meals and Lodging – Meals – Prohibited Reimbursements**. The Center indicated this error occurred because it does not normally allow travel on state funds. It obtained a state grant and did not understand it had to follow state travel rules for travel expenses relating to this grant. As a result, the Center used its internal procedures for payment instead of the state of Texas rules for employee travel.

Recommendation/Requirement

The Center must ensure all travel expense claims are thoroughly reviewed for legality and accuracy before payment. In addition, the funds should be returned to the state treasury.

Center Response

We have implemented a secondary review of all expenses prior to submitting into USAS. The AFS staff responsible for reviewing have attended the Comptroller training classes to ensure they are familiar with the rules. We will require refresher training every two to three years to ensure they stay current.

We are calculating the overpayment amounts and will reimburse the state grant for any over payments.

Missing Cost Comparisons for Transportation Expenses

Auditors identified seven travel transactions where the Center failed to conserve state funds by ensuring that each travel arrangement was the most cost-effective considering all relevant circumstances. For five transactions, the traveler flew instead of using a rental vehicle or instead of seeking mileage reimbursement in their personal vehicle. For one transaction, the traveler flew and then rented a vehicle and drove to the final destination. For one transaction, the traveler sought mileage reimbursement for using a personal vehicle. The travel file did not include a cost comparison to show cost-effectiveness for any of these transactions.

According to the Center's policies, a cost comparison is only required if the traveler chooses to drive a personal vehicle instead of flying, and the destination is more than 400 miles one-way from headquarters. The Center indicated this error occurred because it does not normally allow travel on state funds. It obtained a state grant and did not understand it had to follow state travel rules for travel expenses relating to this grant. As a result, the Center used its internal procedures for payment instead of the state of Texas rules for employee travel.

According to **TexTravel – Conservation of State Funds**, a state agency must minimize the amount of travel expenses reimbursed by ensuring that each travel arrangement is the most cost-effective considering all relevant circumstances. To demonstrate that it has considered all relevant circumstances, an agency must include cost comparisons for lodging and/or transportation in its travel files.

Recommendation/Requirement

The Center must improve its effort to conserve state funds expended for travel. Specifically, the Center must provide training to its employees and travel coordinators to ensure a cost comparison between different travel arrangements and transportation methods is performed and ensure the lowest cost arrangement is used, unless a reasonable exception/justification is documented in the travel voucher/file. Any instances where a higher cost method of transportation would result in the most cost-effective travel overall should also be documented in the travel file.

Center Response

We currently have a process to compare driving to airfare, but are in the processing of updating to include the additional State requirements.

Reimbursement of Unallowable Meal Expense

Auditors identified two travel transactions in which the travelers were reimbursed for unallowable meal expenses. Two employees traveled together, split the cost of meals, and split the reimbursement amounts. The receipt for one of the meals included alcohol, which is not an allowable expense. See [Government Code, Section 660.113(e)](#) and [Textravel – Meals and Lodging – Meals – Prohibited Reimbursements](#). In addition, the two travelers also paid for another individual's meal and sought reimbursement for the full amount. Individual travelers can only be reimbursed for their own meals. See [Textravel – Meals and Lodging – Meal Reimbursements](#). Meals purchased as a business expense for anyone other than the traveler would have to be deducted from the reimbursement amount requested from state funds. The Center indicated this error occurred because it does not normally allow travel on state funds. It obtained a state grant and did not understand it had to follow state travel rules for travel expenses relating to this grant. As a result, the Center used its internal procedures for payment instead of the state of Texas rules for employee travel.

Recommendation/Requirement

The Center should increase training for the individuals who review travel vouchers to ensure that all travel expense claims are accurately reviewed for legality and accuracy prior to payment. The Center should seek a reimbursement from the employees unless it determines it is not cost effective to do so. In addition, the funds should be returned to the state treasury.

Center Response

We have implemented a secondary review of all expenses prior to submitting into USAS. The AFS staff responsible for reviewing have attended the Comptroller training classes to ensure they are familiar with the rules. We will require refresher training every two to three years to ensure they stay current.

We are calculating the overpayment amounts and will reimburse the state grant for any over payments.

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 in the Center's internal inventory system. Audit tests revealed the following exception in these transactions.

Proof of Annual Review of Capital Assets Not Provided

Although the Center does maintain a list of property and capital assets and has a policy requiring an annual review of the property and assets, it was unable to provide documentation showing the review had been conducted. This inventory review is intended to ensure property and assets are still in working order, in the assigned locations, and/or still in the Center's possession. The Center's policy, however, does not state how the review must be conducted and reported. According to **Government Code, Section 403.275**, the Center is subject to liability for property loss (disappearances, deterioration, damage or destruction). Institutions of higher education are required to account for all property. Failure to maintain proper records documenting the annual asset reviews can result in the loss of unassigned assets, delayed reporting of property loss and/or inaccurate inventory valuation records. The Center also is required to submit Note 2 and certify the capital assets dollar value under Governmental Accounting Standards Board (GASB) Statement No. 34 and Statement No. 35 for the state annual financial reports. Not performing annual inventory reviews or year-end physical inventory counts and valuation increases the risk of inaccurate financial reporting. See **FPP C.020** and **Reporting Requirements for the Annual Financial Reports of State Agencies and Universities – Notes & Samples – Note 2 – Capitol Assets**.

Recommendation/Requirement

The Center must follow its policy for monitoring capital assets and performing annual reviews of its property and capitol assets to meet its fiduciary responsibility and to ensure accurate records. It must also update its policy to include how the annual review will be documented and reported.

Center Response

SCM will update procedures to include how the annual review will be documented and reported.

Targeted Analysis

The audit included targeted analyses outside the main samples of payroll, purchase, and travel transactions. Using Comptroller statewide financial systems and the Citibank CitiManager Reporting System, auditors generated several special reports to analyze additional processes. Such processes may include interagency transfers, refunds to payroll, proper coding of payment card transactions, and others. Audit tests revealed the following exceptions in the Center's targeted analysis reports.

Incorrect Comptroller Object Used

Auditors identified four payroll, 10 travel, 10 purchase, and two payment card transactions in the samples and two transactions in reports generated outside the samples where an incorrect comptroller object was used.

The payroll transactions included straight time compensatory payments that were incorrectly coded as overtime rather than **compensatory time**. The Center used comptroller object **7104 – Travel In-State – Actual Meal and Lodging Expenses – Overnight Travel** for all ten of the travel transactions, which included meals, lodging, transportation, and incidental expenses. This code should only be used for meals and lodging of the Center's president (chief administrator) or by an employee traveling with, or on behalf of, the president. The purchase and payment card transactions included several improperly coded grants and types of contracts/purchases.

Improper use of comptroller objects can result in inaccurate expenditure reporting for public information requests as well as in the annual financial statements of agencies. Incorrect coding can also affect the pre-payment audit function and the automatic calculation of prompt payment interest in the Uniform Statewide Accounting System (USAS).

Recommendation/Requirement

The Center must ensure its employees are trained on the proper use of comptroller objects. The Center must also ensure the system used to select the appropriate comptroller objects is programed with the appropriate codes, so that reimbursement requests sent to USAS from the system are accurate.

Center Response

We have implemented a secondary review of all expenses prior to submitting into USAS and worked with Information Resources to address mapping our expense codes to the Comptroller's Object Codes. The AFS staff responsible for reviewing have attended the Comptroller training classes to ensure they are familiar with the rules. We will require refresher training every two to three years to ensure they stay current.

Incorrect Billing Account Number

In a report generated outside the sample, auditors identified 399 procurement card transactions totaling $97,230.78 that were processed incorrectly to the state's payment card vendor. The Center failed to provide the correct billing account number as prescribed by ***Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements* (FPP A.043)** and ***USAS and CAPPS Financials Invoice Number Field Requirements* (FPP E.023)**. The invoice number was also not compliant with the format required in FPP E.023. As a result, the vendor might not be able to post payments to the Center's payment and travel card accounts.

Recommendation/Requirement

The Center must ensure payments for third-party transactions are processed in accordance with **FPP A.043** and **FPP E.023**. To avoid account delinquency or reconciliation issues, auditors recommend the Center continue to review payment card statements to ensure payments are posted correctly.

Center Response

We have implemented a secondary review of all expenses prior to submitting into USAS. The AFS staff responsible for reviewing have attended the Comptroller training classes to ensure they are familiar with the rules. We will require refresher training every two to three years to ensure they stay current.

Incorrect Texas Identification Number Used

Auditors identified one purchase and one travel transaction in the sample where the Center used an incorrect payee Texas Identification Number (TIN). Additionally, in a report generated outside the sample, 369 payment card and 31 travel transactions also had an incorrect TIN. The Center stated that the process in place at the time did not correct the vendor from Citibank to the actual vendor when requesting reimbursement for payment card transactions. In the case of the purchase transaction, the internal expense allocation was used instead of the original payment when requesting reimbursement.

The correct TIN is necessary to capture the actual name of the vendor/traveler receiving the payment/reimbursement. Improper processing procedures can result in inaccurate expenditure reporting for public information requests. See ***Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements* (FPP A.043)** for information on how state agencies and institutions of higher education must process third-party payments through USAS.

Recommendation/Requirement

The Center must modify or update its entry method in USAS to ensure transactions have proper employee-level and vendor-level details required by **FPP A.043**. This information is essential for an accountable and open government. It is also used for public information requests and post-payment auditing purposes. The options for an institution to comply with **FPP A.043** may include manually entering the required data, implementing system changes, or not seeking state reimbursement for these payments.

Center Response

We have implemented a secondary review of all expenses prior to submitting into USAS. The AFS staff responsible for reviewing have attended the Comptroller training classes to ensure they are familiar with the rules. We will require refresher training every two to three years to ensure they stay current.

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 statewide financial systems.
- 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.

Audit Scope

Auditors reviewed a sample of the University of Texas Southwestern Medical Center (Center) payroll, purchase and travel transactions that processed through the statewide financial systems from June 1, 2022, through May 31, 2023, to determine compliance with applicable state laws.

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 Center 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.

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 the Center's documents comply in the future. The Center 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

Amanda Price, CFE, CTCD, CTCM, Lead Auditor

Eunice Miranda, CTCD, CTCM

Angelica Villafuerte, CGAP, 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: • 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.