Audit Report # 783-11-01

Post Payment Audit of the University of Houston System

Fiscal Management Division
Expenditure Audit Section

December 20, 2011
December 20, 2011

Renu Khator, Ph.D.
Chancellor
University of Houston System
5000 Gulf Freeway, Building 2, Room 214
Houston, Texas 77204-0911

Dear Dr. Khator:

We have completed a post-payment audit of certain payroll, purchase, and travel transactions of the University of Houston System (System). We would like to thank your staff. We appreciate their responsiveness and cooperation in assisting us with this audit, particularly Dr. Carlucci, and Mike Glisson. A draft of this audit report was sent to Dr. Carl Carlucci, Executive Vice Chancellor, on November 8, 2011. Responses to the draft are included within this final report.

Our purpose was to determine whether the System’s expenditures complied with certain state laws and rules concerning expenditures and with the processing requirements of the Uniform Statewide Accounting System (USAS). The System is responsible for ensuring that its staff is knowledgeable in these areas.

The System must submit to the Texas Comptroller of Public Accounts (Comptroller’s Office) a corrective action plan that addresses the instances of payment and documentation errors detailed within this report. The plan must provide for appropriate improvements in the control structure related to the System’s payment process and show expected dates of implementation. The corrective action plan must be completed and signed by management and the System’s internal auditor. An electronic copy of the corrective action plan is available upon request. Our Office must receive the completed plan by Jan. 20, 2012.

We intend for this report to be used by the System’s management and certain state officials and agencies as listed in Tex. Gov’t Code Ann. § 403.071 (Vernon Supp. 2011). However, the audit report is a public record, and its distribution is not limited.

We noted other matters involving the processing of expenditures by the System that we have communicated in an email to Dr. Carlucci dated December 20, 2011.
We would like to request input from you or your designee on the quality of the audit process and the service provided by the audit staff. Please use the following website to provide feedback on the post-payment audit process: https://fmx.cpa.state.tx.us/fm/survey/audit/ or if you prefer, a hard copy has been included for your convenience. We greatly appreciate your feedback.

The System may inquire about and register for training related to these findings through the Fiscal Management Training Center website at https://fmx.cpa.state.tx.us/fmx/training/index.php.

Thank you for your cooperation. If we can be of any further assistance, please contact Tammy Koenings at tammy.koenings@cpa.state.tx.us or 512-475-0628.

Sincerely,

Lisa Nance
Manager
Statewide Fiscal Services

Enclosure

cc: Nelda Luce Blair, Chairman, Board of Regents, University of Houston System
   Dr. Carl Carlucci, Executive Vice Chancellor, University of Houston System
   Mike Glisson, Controller, University of Houston System
   Don Guyton, Chief Audit Executive, University of Houston System
   Tammy Koenings, Auditor, Statewide Fiscal Services, Texas Comptroller of Public Accounts
Audit Scope

We audited a stratified random sample of the System’s payroll transactions that processed through USAS during the period beginning June 1, 2010, through May 31, 2011. We audited all of the purchase, travel, and grant transactions in the population with the exception of one purchase document relating to disaster recovery reimbursements. Due to the volume of internal transactions relating to this one USAS document, a limited review was conducted. The appendices to this report include schedules of the errors identified. Each transaction in the sample was reviewed to determine compliance with applicable state laws. The report includes a projection of the errors to estimate the amount of improperly paid transactions in the population.

The audit provides a reasonable basis for the findings set forth in the attached report. The System should implement the recommendations listed in the Detailed Findings of this report. It is the System’s responsibility to seek refunds for all overpayments, unless it determines it is not cost effective to do so. If necessary, the Texas Comptroller of Public Accounts (Comptroller’s office) may take the actions set forth in Tex. Gov’t Code Ann. § 403.071(h) (Vernon Supp. 2011) to ensure that the System’s documents comply in the future. The System must ensure that the findings discussed in this report are resolved.

Payroll Transactions and Deductions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), the Texas Payroll/Personnel Resource (Payroll Resource)¹, and other pertinent statutes. A limited sample of voluntary contributions was also audited.

The audit identified:

- The audit identified seven payroll transactions were missing documentation.

Purchase Transactions

Purchase transactions were audited for compliance with the GAA, eXpendit, the State of Texas Procurement Manual (Procurement Manual), and other pertinent statutes.

- No errors were identified.

Travel Transactions

Travel transactions were audited for compliance with the GAA, Textravel, and other pertinent statutes.

- No errors were identified.

Grant Transactions

The audit included a limited review of the System's transactions relating to grant payments. This review consisted of verifying that the payments did not exceed the authorized amounts. The review of these payments did not include an investigation of the System's procedures for awarding the grants or monitoring payments made to grantees; therefore, we are not offering an opinion on those procedures.

- No errors were identified.

Fixed Assets

The audit included a limited number of fixed assets acquired by expenditures during our audit period to test for accurate reporting in State Property Accounting system (SPA) and to verify the existence of the assets.

- All assets tested were in their intended location and properly recorded in SPA.

Prior Post-Payment Audit and Current Audit Recurring Errors

We concluded a prior post-payment audit of the System’s payroll, purchase, and travel transactions on Oct. 31, 2006. During the current audit, there were no recurring errors identified.

Contact
Tammy Koenings, CPA, CTP
512-475-0628

Contributing Auditor
Derik Montique, MBA, CTP
DETAILED FINDINGS

02/15/12
AUDIT – E-85
MISSING PAYROLL DOCUMENTATION

Finding

In our review of payroll transactions, we identified seven payroll transactions that were missing the documentation needed to determine whether the payments to the employees were made correctly. We did not obtain prior service verifications for five employees. The employees’ resume and employment application listed the prior state service; however, the System inadvertently overlooked the data and did not verify the state service.

As a result of the audit, the System has requested the verifications from the prior employing agencies. The System noted that it is still in the process of trying to obtain the verifications. The System should continue to pursue obtaining the verifications. If any of the employees are eligible for additional lifetime service credit, the System must compensate the employees.

We also identified two personnel files that were missing a payroll action request (PAR) and one of these two files did not have the correct documentation to support the payroll information.

Agencies are required to maintain specific documentation to support the legality, propriety, and fiscal responsibility of each payment made out of the agency’s funds. The Comptroller may require the documentation to be made available during a post-payment audit, a pre-payment audit, or at any other time. See Payroll Guide, pp 1.38-1.39, 3.43-3.44.

We provided the System with the schedule documenting the exceptions at the exit meeting. It is not included with this report due to confidentiality issues.

Recommendation/Requirement

We recommend that the System verify all personnel files to ensure that properly completed prior state service verification forms are obtained for its employees. In addition, the System should review each employee’s job application and/or resume for prior state service of all new employees. We also recommend that the System obtain any missing documentation.

The System should consider recovering any overpayments of longevity pay and accrual benefits from the employees in accordance with Chapter 666, Texas Government Code. In addition, the System must compensate any employees that were underpaid longevity pay in accordance with Chapter 666, Texas Government Code.

Agency Response

The UH System Human Resources Department will implement procedures to review and verify State of Texas service indicated on resumes and job applications of all new employees. These procedures will be implemented no later than January 31, 2012.
Note that the seven pieces of missing documentation identified during the audit were later found by UH System and presented to the Comptroller's Office. After reviewing the documentation, UH System found that none of the affected employees were incorrectly compensated for longevity or accrual benefits.
# APPENDIX 1

## Summary of Sample Payment Errors Detected

**Audit Period:** June 1, 2010 to May 31, 2011

### GROUP 1 (USAS) - PAYROLL TRANSACTIONS

<table>
<thead>
<tr>
<th>Stratum Letter</th>
<th>Low Range</th>
<th>High Range</th>
<th>Audited Transactions</th>
<th>Errors Detected (A)</th>
<th>Sample Base (B)</th>
<th>Error Rate (C)</th>
<th>Population Base (D)</th>
<th>Projected Errors (E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$0.00</td>
<td>$1,950.00</td>
<td>100</td>
<td>$0.00</td>
<td>$21,743.70</td>
<td>.000000</td>
<td>$1,332,864.90</td>
<td>$0.00</td>
</tr>
<tr>
<td>B</td>
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<td>$31,868.00</td>
<td>100</td>
<td>$0.00</td>
<td>$495,292.43</td>
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<td>$6,371,233.50</td>
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<td>C</td>
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<td>$0.00</td>
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<td>$415,972.46</td>
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</tr>
</tbody>
</table>

**Total for Stratum:** $933,008.59

**Total for Group:** $8,120,070.86

**Projected Errors:** $0.00

### GROUP 2 (USAS) - PURCHASE TRANSACTIONS - Limited Review

<table>
<thead>
<tr>
<th>Stratum Letter</th>
<th>Low Range</th>
<th>High Range</th>
<th>Audited Transactions</th>
<th>Errors Detected (A)</th>
<th>Sample Base (B)</th>
<th>Error Rate (C)</th>
<th>Population Base (D)</th>
<th>Projected Errors (E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
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<td>$999,999,999.99</td>
<td>190</td>
<td>$0.00</td>
<td>$338,663.33</td>
<td>.000000</td>
<td>$338,663.33</td>
<td>$0.00</td>
</tr>
<tr>
<td>Limited Review of Document # 90042798</td>
<td>75</td>
<td></td>
<td>$0.00</td>
<td>$2,120,039.53</td>
<td>.000000</td>
<td>$7,337,486.71</td>
<td>$0.00</td>
<td></td>
</tr>
</tbody>
</table>

**Total for Stratum:** $2,458,702.86

**Total for Group:** $7,676,150.04

**Projected Errors:** $0.00

### GROUP 3 (USAS) - TRAVEL TRANSACTIONS

<table>
<thead>
<tr>
<th>Stratum Letter</th>
<th>Low Range</th>
<th>High Range</th>
<th>Audited Transactions</th>
<th>Errors Detected (A)</th>
<th>Sample Base (B)</th>
<th>Error Rate (C)</th>
<th>Population Base (D)</th>
<th>Projected Errors (E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$0.00</td>
<td>$999,999,999.99</td>
<td>6</td>
<td>$0.00</td>
<td>$1,513.29</td>
<td>.000000</td>
<td>$1,513.29</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

**Total for Stratum:** $1,513.29

**Total for Group:** $1,513.29

**Projected Errors:** $0.00

### GROUP 4 (USAS) - GRANT TRANSACTIONS

<table>
<thead>
<tr>
<th>Stratum Letter</th>
<th>Low Range</th>
<th>High Range</th>
<th>Audited Transactions</th>
<th>Errors Detected (A)</th>
<th>Sample Base (B)</th>
<th>Error Rate (C)</th>
<th>Population Base (D)</th>
<th>Projected Errors (E)</th>
</tr>
</thead>
<tbody>
<tr>
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<td>$0.00</td>
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</tbody>
</table>

**Total for Stratum:** $1,334,972.00

**Total for Group:** $1,334,972.00

**Projected Errors:** $0.00

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### Legend

- Sample Error Rate \( (C) = (A) \times (B) \)
- Projected Errors \( (E) = (C) \times (D) \)
- Group Error Rate \( (F) = (H) \times (G) \)
- Group Population Base \( (G) = \text{sum of Population Bases (D)} \)
- Group Projected Errors \( (H) = \text{sum of Projected Errors (E)} \)

**Total Population Base (I) = \text{sum of Group Population Bases (G)}**

**Total Projected Errors (J) = \text{sum of Group Projected Errors (H)}**

**Note:**

All dollar amounts rounded to the second decimal place.

All error rates rounded to the sixth decimal place.

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**02/15/12**

**AUDIT – E-89**
A state agency may request the Comptroller of Public Accounts (Comptroller's office) to pay a claim against the agency only by submitting the appropriate payment voucher to the Comptroller's office. Tex. Gov't Code Ann. §§ 404.046, 404.069 (Vernon 2005), §§ 2103.003, 2103.0035, 2103.004 (Vernon 2008). State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher. Tex. Gov't Code Ann. § 403.071(a) (Vernon Supp. 2011), § 403.078 (Vernon 2005) § 2103.004(a)(3) (Vernon 2008).


The Expenditure Audit section of the Comptroller's office Statewide Fiscal Services conducts these audits.

**Audit objectives**

The primary objectives of a post-payment audit are to:

- Ensure that payments are documented so that a proper audit can be conducted.
- Ensure that payment vouchers are processed according to the requirements of the uniform statewide accounting and payroll systems.
- Verify that payments are made in accordance with certain applicable state laws.
- Verify that assets are in their intended location and are properly recorded in the State Property Accounting (SPA) system.
- Verify that the voucher signature cards and systems security during the audit period were consistent with applicable laws, rules, and other requirements.

**Methodology**

The expenditure audit section uses generally recognized sampling techniques to conduct a post-payment audit. The computer audit menu system software is used to generate a stratified random sample of payment vouchers for the audit, with a confidence level of 95 percent. The vouchers are audited in detail, and the results of the audit are projected to estimate the amount of claims that were unsubstantiated or improperly paid. Limited samples are also utilized where applicable.

**Field Work**

Each auditor in the expenditure audit section is required to approach the field work phase of each audit with an appropriate level of professional skepticism based upon the results of the initial planning procedures. If an auditor suspects during an audit that fraud, defalcations, or intentional misstatement of the facts has occurred, then the auditor will meet with his or her supervisor or the Statewide Fiscal Services manager, or both, to decide what course of action or additional procedures would be appropriate.

**Reporting**

Each auditor audits the payment vouchers included in a sample according to established policies and procedures. The audit findings are reported to the audited agency in the form of a report.

The audit report discloses the total dollar amount of any unsubstantiated payments or overpayments noted in the sample. In addition, the report shows the result of projecting those payments to the appropriate population. Finally, the report includes recommendations and requirements for the audited agency.

Each auditor discusses the management issues noted during the audit at the exit and communicates details of these issues to the chief fiscal officer.