

November 4, 2016

Dr. Renu Khator
President
University of Houston System
4302 University Drive, Room 212
Houston, Texas 77204-2018

Dear Dr. Khator:

We have completed a post-payment audit of certain payroll, purchase and grant transactions of the University of Houston System (System). We would like to thank you and your staff for your responsiveness and cooperation in assisting us with this audit. A draft of this audit report was sent to the Assistant Vice President for Finance and Controller, Mike Glisson, on Sept. 26, 2016. The System's response to the draft is included in this 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 has taken corrective action steps to correct the audit finding identified in the post payment audit.

We intend for this report to be used by the System's management and certain state officials and agencies as listed in Texas Government Code, Section 403.071. However, this 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 to Mike Glisson in an email dated Sept. 26, 2016.



Dr. Renu Khator
November 4, 2016
Page Two

The System may inquire about and register for training related to expenditures through the Fiscal Management [Training Center](#).

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 while conducting this audit. Please take our [Post-Payment Audit Survey](#) to rate and comment on the post-payment audit process. Your feedback is greatly appreciated.

Thank you for your cooperation. If we can be of any further assistance, please contact waleska.carlin@cpa.texas.gov or 512-463-4487.

Sincerely,



Lisa M. Nance
Manager, Statewide Fiscal Services
Fiscal Management Division

Attachments

cc: Jim McShan, Vice Chancellor/Vice President, Administration & Finance, University of Houston System
Raymond Bartlett, Senior Associate Vice Chancellor/Senior Associate Vice President, Finance, University of Houston System
Joan Nelson, Associate Vice Chancellor/Associate Vice President, Human Resources, University of Houston System
Mike Glisson, Assistant Vice President for Finance and Controller, University of Houston System
Sandra Armstrong, Director, Human Resources Operations, University of Houston System
Don Guyton, Chief Audit Executive, University of Houston System
Waleska Carlin, Auditor, Texas Comptroller of Public Accounts



Fiscal Management Division
Statewide Fiscal Services Dept.
Expenditure Audit Section
Auditor: Waleska Carlin

Audit Report # 783-16-01
November 4, 2016

Post-Payment Audit of University of Houston System



Glenn Hegar
Texas Comptroller of Public Accounts

Table of Contents

Executive Summary

Audit scope	i
Payroll transactions and payroll deductions	i
Purchase transactions	i
Grant transactions	i
Prompt payment and payment scheduling.....	ii
Security.....	ii
Internal control structure.....	ii
Prior post-payment audit and current audit recurring findings	ii

Detailed Finding — Payroll

Incorrect Longevity Payment.....	1
----------------------------------	---

Appendices

Appendix 1 — Summary of Sample Errors Detected	A.1
Appendix 2 — Audit Process Overview.....	A.2

EXECUTIVE SUMMARY

Audit scope

We audited a sample of the University of Houston System (System) payroll, purchase and grant transactions that processed through the Uniform Statewide Accounting System (USAS) during the period beginning Sept. 1, 2014, through Aug. 31, 2015, to determine compliance with applicable state laws.

The System received appendices with the full report that included 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 System should implement the recommendations listed in the Detailed Findings of this report. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the System's documents comply in the future. The System must ensure that the findings discussed in this report are resolved.

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.

Payroll transactions and payroll deductions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), the [Texas Payroll/Personnel Resource](#) and other pertinent statutes. The System was also audited for compliance with Human Resource Information System (HRIS) reporting requirements.

The audit identified:

- Incorrect longevity payment amount.

Purchase transactions

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

- No issues were identified.

Grant transactions

A limited review of the System's transactions relating to grant payments was conducted as a part of our purchase sample. This review consisted of verifying that payments did not exceed 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 the payees; therefore, no opinion is being offered on those procedures.

- No issues were identified.

Prompt payment and payment scheduling

We audited the System's compliance with the prompt payment law and scheduling rules.

- No issues were identified.

Security

The audit included a security review to identify any individuals with security access to USAS, the Texas Identification Number System (TINS) or on the voucher signature cards who were no longer employed by the System or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner.

- No issues were identified.

Internal control structure

The review of the System's internal control structure was limited to obtaining an understanding of the System's controls sufficient to plan the audit and did not include tests of control policies and procedures.

- No issues were identified.

Prior post-payment audit and current audit recurring findings

A prior post-payment audit of the System's payroll, purchase and travel transactions was concluded on Dec. 20, 2011.

During the current audit, no recurring findings were identified.

Contact:

Waleska Carlin, CGAP
512-463-4487

Contributing Auditor:

Raymond McClintock

DETAILED FINDING — PAYROLL

Incorrect Longevity Payment

Finding

We identified an incorrect longevity payment for one employee outside of the audit sample.

The System has implemented a process to verify prior state service, including an internal form for employees to submit prior service information for verification. Once the form is submitted by the employee, the System then conducts verification and enters the state service time on the system for proper longevity payment.

The employee did not submit the internal form for verification, but reported state service time on the job application. The System did not verify the employee's previous state employment on the job application prior to entering service time in the system; and therefore, the employee did not receive service credit for the time.

The additional service credit identified during the audit resulted in an underpayment of longevity pay in the amount of \$840. The System has taken corrective actions and compensated the employee for the unpaid amount of longevity pay.

The System is responsible for researching and verifying prior state service time on its employees prior to processing longevity payments to employees.

When an agency hires an employee, the agency must research if the employee has previous state employment. If there is prior state employment, the agency must confirm the amount of lifetime service credit and properly record it or run the risk of underpaying longevity pay.

When an agency hires an employee, the agency must research if the employee has previous state employment. If there is prior state employment, the agency must:

- Confirm the amount of lifetime service credit, and
- Compute the correct amount of longevity pay entitlement.

If the agency fails to do this, the lifetime service credit for longevity will be based on the employment date at the new agency and the eligible employee may be underpaid longevity pay. See the [Texas Payroll/Personnel Resource](#).

Recommendation/Requirement

We recommend the System formally verify and confirm state service time for its employees. In addition, the System should continue to verify employee's job application and/or resume for any prior state service time for new employees and ensure service time is properly recorded in the payment system.

System Response

In January 2015, the University established a website that informs employees about prior state service. The website provides clear information on the process of submitting a prior state service request as well as the State of Texas Interagency Employment Verification form. This information is provided to all new employees at new hire orientation.

Currently, the University is implementing Taleo, a recruiting and electronic onboarding software that will automate the recruit to hire process. One hard stop for employees during the onboarding will be the personal data sheet that will have the prior state service question. The final candidate for the position will have to answer the question prior to proceeding with completion of their onboarding. This hard stop in the system will trigger automatic notification to the benefits department. The benefits department will reach out to the employee for completion of the interagency employment verification form. Taleo will go-live in February 2017.

The incorrect longevity payment for the one employee in the audit sample was corrected in June 2016.

Appendices



APPENDICES

Appendix 1 — Summary of Sample Errors Detected

Audit Period: Sept. 1, 2014 through Aug. 31, 2015

GROUP 1 (USPS) — PAYROLL TRANSACTIONS — Limited Sampling

Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base
\$0.00	\$999,999,999.99	115	\$0.00	\$499,981.95	.000000	\$3,329,819.37

GROUP 2 (USAS) — PURCHASE TRANSACTIONS — Limited Sampling

Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base
\$0.00	\$999,999,999.99	10	\$0.00	\$6,870,860.79	.000000	\$15,788,403.30

GROUP 3 (USAS) — INTEREST — Other TRANSACTIONS — Limited Sampling

Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base
\$0.00	\$999,999,999.99	10	\$0.00	\$1,099,262.15	.000000	\$1,099,262.15

GROUP 4 (USAS) — GRANT TRANSACTIONS — Limited Sampling

Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base
\$0.00	\$999,999,999.99	2	\$0.00	\$1,156,608.70	.000000	\$1,156,608.70

Legend

Sample Error Rate (C) = (A) ÷ (B)

Note: All dollar amounts rounded to the second decimal place. All error rates rounded to the sixth decimal place.

Appendix 2 — Audit Process Overview

Post-payment audits are conducted by the Expenditure Audit section of the Comptroller's Statewide Fiscal Services department within the Fiscal Management Division.

Audit objectives

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

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of the Uniform Statewide Accounting System (USAS) and either:
 - ◊ The Uniform Statewide Payroll/Personnel System (USPS),
 - ◊ The Standardized Payroll/Personnel Report System (SPRS) or
 - ◊ The Human Resource Information System (HRIS).
- 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.

Comptroller's office responsibilities / Supporting statute

A state agency may request the Texas 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.

- [Texas Government Code, Sections 404.046, 404.069, 2103.003, 2103.0035, 2103.004.](#)

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.](#)

Methodology

The Expenditure Audit section uses one or more of the following generally recognized auditing techniques to conduct a post-payment audit:

- Detailed audit (100 percent of a given population)
- Stratified random sampling
- Randomly generated sampling
- Non-probability sampling
- Limited sampling

Fieldwork

Each auditor in the Expenditure Audit section is required to approach the fieldwork 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, 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 payment vouchers 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 audit.
- Includes recommendations and requirements for the audited agency.

Each auditor:

- Discusses the management issues noted during the audit at the exit, and
- Includes details of these issues to the chief fiscal officer after the exit.