Texas Comptroller of Public Accounts
Post Payment Audit of the University of Houston Downtown
Fiscal Management Division
Expenditure Audit Section

Scope: The Texas Comptroller's Office audited a sample of payroll, purchase, and travel transactions for the University of Houston Downtown during the period beginning March 1, 2010, through February 28, 2011. Their audit of the university revealed the following:

- Incorrect Calculation of Overtime Pay – The University incorrectly calculated overtime pay for four employees due to an incorrect overtime calculation formula used in its internal system

- Missing Payroll Deduction Form – Payroll deduction document was missing, in one instance for the contributions to the Prepaid Higher Education Tuition Program

- Payment in Excess of Purchase Order Amount – The University paid more than the authorized amount on the purchase order for one transaction.

- Missing Purchase Agreement – The University paid the vendor more than what was included on the documented quote from the vendor for one transaction.

- Missing Documentation – Five purchase transactions lacked the documentation needed to determine whether the payments were made accurately.

- Prompt Payment and Payment Scheduling Issues – Fifteen purchase transactions were paid late where interest was not paid to the vendors.

- Control Weakness Over Expenditures Processing – The university had two employees that could both process and release payments through the Uniform Statewide Accounting System and process and release payrolls without oversight.

The entire report can be viewed on the web site of the UHS Internal Auditing Department @ http://www.uh.edu/audit/Documents/External_Reports/Post%20Payment%20Audit%20UHCL.pdf

Audit Report # 784-11-01

Post Payment Audit of University of Houston - Downtown

Fiscal Management Division
Expenditure Audit Section

August 19, 2011

Susan Combs
Texas Comptroller of Public Accounts

Auditor: Raymond McClintock

SUSAN COMBS

TEXAS COMPTROLLER *of* PUBLIC ACCOUNTS

P.O. BOX 13528 • AUSTIN, TX 78711-3528

August 19, 2011

William V. Flores Ph. D.
President
University of Houston-Downtown
One Main Street
Houston, Texas 77002

Dear Dr. Flores:

We have completed a post payment audit of certain payroll, purchase, and travel transactions of the University of Houston-Downtown (University). A draft of this audit report was sent to the Vice President for Administration and Finance, David Bradley, on July 27, 2011. Responses to the draft are included within this final report.

We would like to thank your staff for their responsiveness and cooperation in assisting us with this audit.

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

The University 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 University's payment process and show expected dates of implementation. The corrective action plan must be completed and signed by management. An electronic copy of the corrective action plan is available upon request. Our office must receive the completed plan by Sept. 19, 2011.

We intend for this report to be used by the University's management and certain state officials and agencies as listed in Tex. Gov't Code Ann. § 403.071 (Vernon Supp. 2010). 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 University that we have communicated in an e-mail to George Anderson, dated July 31, 2011.

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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 use the following website to provide feedback on the post-payment audit process. https://fmx.cpa.state.tx.us/fm/survey/audit/. We have also attached a copy of the document for your convenience. We greatly appreciate your feedback.

The University may inquire about registering 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 Raymond McClintock at raymond.mcclintock@cpa.state.tx.us or (512) 463-4859.

Sincerely,

Lisa Nance
Manager
Statewide Fiscal Services

Enclosures

cc: Carroll Robertson Ray, Chair, Board of Regents, University of Houston-Downtown
David Bradley, Vice President for Administration and Finance, University of Houston-Downtown
George Anderson, Asst. Vice President, Business Affairs, University of Houston-Downtown
Don Guyton, Chief Audit Executive, University of Houston System
Raymond McClintock, Auditor, Statewide Fiscal Services, Texas Comptroller of Public Accounts

We audited a stratified random sample of payroll and purchase transactions and all of the travel transactions that processed through USAS during the period beginning March 1, 2010, through Feb. 28, 2011. We also reviewed a limited sample of payroll deductions and book and reference material transactions for the same audit period. We reviewed each transaction in the sample to determine compliance with applicable state laws. The report includes a projection of the payment errors to estimate the amount of improperly paid transactions in the population. Documentation errors and errors identified outside our sample are actual amounts and are not projected.

We believe the audit provides a reasonable basis for the findings set forth in the attached 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 Tex. Gov't Code Ann., §403.071(h) (Vernon Supp. 2010) to ensure that the University's documents comply in the future. The University must ensure that the findings discussed in this report are resolved.

Overall Conclusion:

Our audit of the University revealed the following:

- Incorrect Calculation of Overtime Pay
- Missing Payroll Deduction Form
- Payment In Excess Of Purchase Order Amount
- Freight Not On Purchase Agreement
- Missing Purchase Documentation
- Prompt Payment and Scheduling Issues
- Control Weakness Over Expenditure Processing

The law requires the 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 appendices to this report provide schedules of the errors identified except for payroll and expenditure approval schedules, which are not included due to confidentiality issues.

Follow up to Prior Audit:

We issued a prior post-payment audit of the University's payroll, purchase, and travel transactions on Dec. 4, 2006. Recurring findings from the previous audit included: prompt payment and scheduling errors, missing payroll deduction form, and control weakness over expenditure processing.

Expanded Summary of Findings:

PAYROLL We audited payroll transactions for compliance with the General Appropriations Act (GAA), the *State of Texas Payroll Policies and Procedures Guide (Payroll Guide)*, and other pertinent statutes. In our audit of the payroll transactions, we identified four instances of the University incorrectly calculating overtime pay.

We reviewed a limited number of payroll deductions. A deduction form for a University employee was missing.

PURCHASE We audited purchase transactions for compliance with the GAA, *eXpendit* [1], and other pertinent statutes. We identified five transactions where the University could not verify the rates invoiced. We also identified two transactions where the University paid more than what was stated on the purchase agreement.

We conducted a limited review of book and reference material transactions from our purchase group. We did not identify any issues from our review of these transactions.

PROMPT PAY AND SCHEDULING We audited the University's compliance with the prompt payment law and scheduling rule. The University paid $1,078.26 in prompt payment interest during the audit period. We identified 15 purchase transactions that were paid late without paying interest to the vendors, and two purchase transactions where interest was paid too early causing a loss of interest to the state treasury.

TRAVEL We audited travel transactions for compliance with the GAA, *Textravel,* and other pertinent statutes. We did not identify any issues from our review of travel transactions.

EXPENDITURE APPROVALS We reviewed the University's internal control structure. Our review was limited to obtaining an understanding of the University's controls sufficient to plan our audit and did not include tests of control policies and procedures. We noted certain areas of risk involving the internal control structure and its operation. The University designated two employees with multiple security capabilities.

STATE PROPERTY ACCOUNTING SYSTEM (SPA) We selected a limited number of fixed assets acquired by expenditures during our audit period to test for accurate reporting in SPA and to verify existence of the assets. We were able to locate all assets and verified the recording of the assets in SPA.

Contact
Raymond McClintock
(512) 463-4859

Contributing Auditors
Valerie Davis, CTPM
Jesse Cantu, CPA, CTP

[1] Effective Aug. 27, 2010, *eXpendit*, replaces the *State of Texas Purchase Policies and Procedures Guide*. The *eXpendit* guidelines are located on the FMX Web site: https://fmx.cpa.state.tx.us/fm/pubs/purchase/index.php.