

April 15, 2019

Renu Khator, Ph.D.
Chancellor/President
University of Houston
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Houston, Texas 77204-2018

Dear Dr. Khator:

We have completed a post-payment audit of certain payroll, purchase and travel transactions of the University of Houston (University). 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 Senior Vice Chancellor & Vice President for Administration & Finance Mr. Jim McShan on March 15, 2019. The University's response to the draft is included in this report.

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) and the Human Resource Information System (HRIS). The University is responsible for ensuring that its staff is knowledgeable in these areas.

We intend for this report to be used by the University'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 University that we communicated to Jim McShan in an email dated March 15, 2019.

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

We would like input from you or your designee on the quality of the audit process and the service the audit staff provided 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.



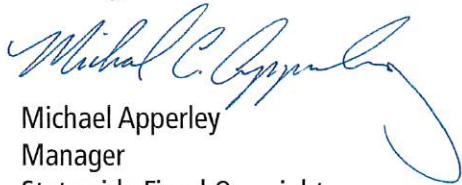
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Dr. Renu Khator
April 15, 2019
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Thank you for your cooperation. If we can be of any further assistance, please contact shanda.hernandez@cpa.texas.gov or 512-936-8489.

Sincerely,



Michael Apperley
Manager
Statewide Fiscal Oversight
Fiscal Management Division

Attachments

cc: Jim McShan, Senior Vice Chancellor & Vice President, Administration & Finance, University of Houston
Don Guyton, CPA, Chief Audit Executive, University of Houston System
Shanda Hernandez, Auditor, Texas Comptroller of Public Accounts





An Audit of the University of Houston

Audit Report # 730-18-01
April 15, 2019

Glenn Hegar
Texas Comptroller of Public Accounts



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Executive Summary

Purpose and Scope

Objectives of the University of Houston (University) audit were to determine whether:

- Contracts were procured according to applicable state laws and Comptroller requirements.
- Payments were processed according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Documentation to support those payments was appropriately maintained.
- Capital and high-risk assets were properly recorded.
- Appropriate security over payments was implemented.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from March 1, 2017 through Feb. 28, 2018.

Background

The University of Houston was established in 1927 and became a state university in 1963. In 1977, the University joined the University of Houston System. Today, the University is a major public research and teaching institution, serving more than 39,800 students annually with nearly 300 undergraduate and graduate programs.


University of Houston website

<http://www.uh.edu/>

Audit Results

The University generally complied with the General Appropriations Act (GAA), other relevant statutes and Comptroller requirements. Auditors found no issues with purchase, contracts, travel, grants and property management transactions. However, the University should consider making improvements to its payroll, security processes and direct deposit processes. The auditors reissued one finding from the last audit conducted at the University related to longevity pay. Auditors originally issued this finding in October 2014. An overview of audit results is presented in the following table.

Table Summary

Area	Audit Question	Results	Rating
<u>Payroll Transactions</u>	Did payroll transactions comply with the GAA, other pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> • Incorrect HRIS reporting. •  Incorrect longevity payment. • Missing dual employment forms and timesheets. 	Compliant, Findings Issued
Purchase/ Procurement Transactions	Did purchase transactions comply with the GAA, other pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Contract Transactions	Did the contracts and related payments comply with the GAA, University internal policies and procedures, best practices, and other pertinent statutes?	No issues	Fully Compliant
Travel Transactions	Did travel transactions comply with the GAA, other pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Grant Transactions	Did grant payments comply with the state laws and regulations pertaining to grants/loans and other pertinent statutes?	No issues	Fully Compliant
Fixed Assets	Were tested assets in their intended location, properly tagged and properly reported in the University's internal system?	No issues	Fully Compliant
Internal Control Structure	Are duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	No issues	Fully Compliant

 Repeat Finding



Area	Audit Question	Results	Rating
<u>Security</u>	Are University employees who are no longer employed, or whose security was revoked, properly communicated to the Comptroller's office?	Failure to notify Comptroller's office to remove employees from signature card.	Control Weakness Issues Exist
<u>Targeted Analysis</u>	Did forms comply with federal mandate to properly identify and handle payments involving moving funds internationally?	Direct deposit authorization forms were incomplete.	Compliant, Findings Issued



Key Recommendations

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

- The University must ensure that all payroll and personnel transactions are reported to HRIS in a timely manner.
- If prior state employment exists, the University must confirm the amount of lifetime service credit and properly record it or risk incorrectly paying longevity pay.
- The University should routinely obtain and review the [State Employees Employed by More than One State Agency](#) report and coordinate with the other state agencies or institutions of higher education to ensure dually employed employees are, and have been, properly compensated.
- The University must enhance procedures to notify the Comptroller's office to remove employees from the signature card once an employee is terminated.
- The University must ensure that all payees who request payment by direct deposit provide the appropriately signed direct deposit authorization form, with the international payments question answered. The University's self-service portal must include the question whether money will be sent out of the country.



Detailed Findings

Payroll Transactions

Auditors developed a representative sample from a group of 30 employees involving 191 payroll transactions totaling \$334,451.38 to ensure that the University complied with the GAA, the [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and other pertinent statutes. Audit tests revealed the following exceptions.

Incorrect HRIS Reporting

The University posts financial transactions to both the Human Resource Information System (HRIS) and the Uniform Statewide Accounting System (USAS). However, auditors discovered 12 of the 14 employees reviewed from the HRIS and USAS reports had reporting differences totaling \$325,750.01. From the payroll sample, there were 15 employees (seven of these employees showed up on the HRIS versus USAS report) who had instances of missing HRIS reporting. The University stated this error was due to oversight.

The Comptroller's office collects and maintains payroll and personnel information on all state employees. The information is used to report statistics to various legislative and oversight bodies, media and the general public. Institutions of higher education must report personnel and payroll events to HRIS as outlined in [34 Texas Administration Code Section 5.41\(h\)-\(i\)](#). If the Comptroller's office detects an error in a state agency's report of personnel or payroll information, the Comptroller's office will provide a description of the error to the agency. The agency must then correct the error according to the requirements of the Comptroller's office.

Recommendation/Requirement

The University must report all payroll and personnel transactions to HRIS in a timely manner. The report submitted to HRIS must be made in the manner, frequency and form required by the Comptroller's office.

University Response

The University will work with the Human Resources Information System (HRIS) team to review and ensure all payroll and personnel transactions are sent over accurately and in a timely manner. The employee demographic interface will need to be completely reviewed, tested, and confirmed to ensure the mapping of data is correct and that the interface is sending over all required information to HRIS. The payroll data interface will need to be completely reviewed, tested, and confirmed to ensure HRIS and USAS reporting are in sync. Projected dated of completion for the complete system modification is March 31, 2020.



Incorrect Longevity Payment

Auditors identified one employee out of 30 with incorrect state effective service dates in the University's internal payroll/personnel system. The incorrect state effective service dates resulted in overpayments of longevity pay totaling \$252.

When an agency hires an employee, the agency must research whether the employee has prior state service. If prior state service exists, the agency must confirm the amount of lifetime service credit and properly record it, or risk incorrectly paying longevity pay. Also, an employee may receive longevity pay for the month in which he or she has accrued 24 months of lifetime service credit only if the employee's anniversary falls on the first workday of the month. Otherwise, the employee begins receiving longevity pay on the first of the following month. See [Texas Payroll/Personnel Resource – Non-Salary Payments – Longevity Pay](#).

Recommendation/Requirement

The University must correct the state effective service dates for the employee. The University should consider recovering the overpayment in accordance with [Texas Government Code, Chapter 666](#), unless it determines it is not cost-effective to do so.

University Response

The University has taken several measures since January 2015 to ensure prior state service is confirmed accurately and longevity calculated correctly for employees. Prior state service information is provided at New Hire Orientation. In January 2015, the university established a website that has information to assist employees with prior state service and in February 2017 the university implemented Taleo, an electronic recruiting system that has the prior state service question on the application. The question must be answered by all applicants before an application can be submitted.

The employee noted in the finding completed the prior state form and the University calculated the prior state service; however, there was an oversight when the benefits date was entered into the system, thus the overpayment.

The benefits date has been corrected. The University has determined that it is not cost-effective to recover the overpayment of longevity identified in the audit.

Missing Dual Employment Notification Forms

Auditors identified two employees who were missing dual employment notification forms informing the University about their employment with other universities. The employees had other jobs with different universities and received income from that activity. There was no impact for these employees because both positions were Fair



Labor Standards Act (FLSA) exempt. The University stated it was not aware of the [State Employees Employed by More than One State Agency](#) report, which lists employees who are currently working for more than one state agency or institution of higher education.

The Texas state government is considered a single employer; while one state agency may classify an employee as FLSA-exempt, another state agency may classify the employee as not exempt. In that case, the not-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 so employees do not receive accruals and benefits more than once. Also, 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 University routinely obtain and review the [State Employees Employed by More than One State Agency](#) report and coordinate with the other state agencies or institutions of higher education to ensure dually employed employees are, and have been, properly compensated. See [Texas Government Code, Chapter 667 \(Multiple Employments with State\)](#).

University Response

The University of Houston was not aware of the State Employees Employed by More than One State Agency report.

This report will be added to our audit processes and will be distributed to each campus for review. Additionally, the University will add the question of dual employment to the electronic recruiting system Taleo, and create a dual-employment form for current UH employees that must be approved prior to accepting employment at another Texas agency.

Purchase/Procurement Transactions

Auditors developed a representative sample of 25 purchase transactions totaling \$3,866,349.15 to ensure the University complied with the GAA, [eXpendit \(FPP I.005\)](#) and other pertinent statutes. Audit tests revealed no exceptions for the group of transactions.



Contract Transactions

Auditors reviewed the procurement, payments, and monitoring process of 12 transactions on two contracts totaling \$7,107,405.65 for compliance with the GAA, the [State of Texas Procurement and Contract Management Guide](#), the University's internal policies and procedures, best practices and other pertinent statutes. Audit tests revealed no exceptions on the two contracts.

Travel Transactions

Auditors developed a representative sample of 25 travel transactions totaling \$12,508.59 to ensure the University complied with the GAA, [Texttravel \(FPP G.005\)](#) and other pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Grant Transactions

Auditors developed a representative sample of two grant transactions totaling \$984,940.00 to ensure the University complied with the Texas Uniform Grant Management Standards (UGMS), the state laws and regulations pertaining to grants, loans and other pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Fixed Assets

The audit included a review of five capital assets to test for proper tracking in the University's internal system. All assets tested were in their intended location and properly tagged.

Internal Control Structure

The review of the University's internal control structure was limited to obtaining reports identifying current user access. The review did not include tests of existing mitigating controls. The audit tests conducted revealed no exceptions in user access.

Security

The audit included a security review to identify any of the University's employees with security in USAS or on the voucher signature cards who were no longer employed or whose security had been revoked. All seven employees on the University's signature cards were reviewed, including three employees who were terminated during the audit period. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner. Audit tests revealed the following security exceptions.



Failure to Notify Comptroller's Office to Remove Employee from Signature Card

During the audit period, the University failed to timely notify the Comptroller's office about the termination of two employees designated to approve its expenditures. The request to remove the employees from the signature card was sent three days late for one employee and 15 days late for the other employee. This error was due to oversight. The risk of a terminated employee remaining on the signature card is that the former employee could have approved paper vouchers submitted to the Comptroller's office during that time. Any payment produced by a paper voucher that was approved by the terminated employee would have constituted an unapproved expenditure. Auditors determined no unapproved documents were processed during the audit period.

Whenever a designated employee terminates employment with an agency, the Comptroller's office must receive notification of the employee's termination no later than the fifth day after the effective date of the termination. Any officer or employee may send the Comptroller's office that notification. See [34 Texas Administrative Code Section 5.61\(k\)\(3\)\(B\)](#).

Recommendation/Requirement

The University must ensure compliance with the terminated employee security revocation requirements. It must also ensure that the person responsible for sending the revocation notifications to the Comptroller's office is aware of any terminations on or before the dates the revocations become effective, and will follow up with the Comptroller's office to ensure receipt of the notifications and completion of the revocations.

University Response

The University of Houston security procedures for terminated or retired employees has been updated.

The procedure is as follows: By the next working day after receipt of employee termination notification from Human Resources or a campus department, UHS USAS security staff will check the list of UHS employees that are on the current voucher signature cards, which is stored in a shared security folder. If the terminating or retiring employee is on the voucher signature card list, UHS USAS security staff is to submit the Statewide Fiscal Systems Security Request to remove the employee from the voucher signature card for the related agency that day.



Targeted Analysis

Auditors developed a representative sample of reports that targeted certain GAA, [eXpendit](#) and other pertinent statutes. Audit tests revealed the following exceptions.

Incomplete Direct Deposit Authorization Forms

Auditors conducted a review of the University's procedures to comply with the federal mandate to properly identify and handle payments involving the international transfer of funds. Six of the 11 payees selected had forms but had not selected the box asking whether the money would be sent out of the country. For one payee selected, a University employee, the audit found the University's self-service portal did not address if payments would be transferred outside of the United States.

The Comptroller's office does not participate in International Automated Clearing House transactions (IAT). IAT's are payments destined for financial institutions outside the United States. If a payee informs an agency that a payment is destined for a financial institution outside the United States, then the agency may not set up that payee for direct deposit.

The Office of Foreign Assets Control requires that all direct deposit payments transmitted outside the U.S. be identified and monitored. To avoid potential federal penalties, each state agency must:

- Show due diligence in the processing of all direct deposit payments.
- When possible, ensure direct deposit payments it issues to accounts at U.S. financial institutions are not ultimately transferred to financial institutions outside of the United States.

Recommendation/Requirement

The University must ensure that all payees who request payment by direct deposit provide the appropriately signed direct deposit authorization form with the international payments question answered. The University must also update its self-service portal to include the question whether money would be sent out of the country.

University Response

This response is for the finding concerning the International Payments Verification field that was left blank on the direct deposit forms. The issue has been reiterated to all of the Vendor ID staff and thoroughly communicated that all required fields on the form must be completed before the form is accepted. Accounts Payable documented the



required fields and created an instruction to make sure the fields are completed before accepting the form. The document has been placed in a departmentally accessible network location.

This response is for the finding concerning the self-service portal: The University has updated Taleo, the electronic recruiting system, and the self-service portal to include the question of payments being forwarded to financial institutions outside of the U.S.



Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team

Audit Objectives

The objectives of this audit were to:

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of any of the following:
 - Uniform Statewide Accounting System (USAS),
 - The Uniform Statewide Payroll/Personnel System (USPS),
 - The Standardized Payroll/Personnel Report System (SPRS),
 - The Human Resource Information System (HRIS) or
 - The Centralized Accounting and Payroll/Personnel System (CAPPS).
- Verify payments are made in accordance with certain applicable state laws.
- Verify assets are in their intended locations.
- Verify assets are properly recorded for agencies and institutions of higher education that use the State Property Accounting (SPA) system.
- Verify voucher signature cards and systems security during the audit period are consistent with applicable laws, rules and other requirements.

Audit Scope

Auditors reviewed a sample of the University of Houston (University) payroll, purchase, and travel transactions that processed through the USAS during the period from March 1, 2017, through Feb. 28, 2018, to determine compliance with applicable state laws.

The University received appendices with the full report that includes a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

The audit provides a reasonable basis for the findings set forth in this report. The University should implement the recommendations listed in the Detailed Findings of this report. It is the University's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the University's documents comply in the future. The University must ensure that the findings discussed in this report are resolved.



Audit Methodology

The Expenditure Audit section uses limited sampling to conduct a post-payment audit.

Fieldwork

Each auditor in the Expenditure Audit section approaches 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, 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

Shanda Hernandez, CTCD - Lead Auditor

Raymond McClintock - Purchase & Contract Auditor

Anna Calzada, CTCD - Payroll Auditor

Jack K. Lee, CPA, CFE - Payroll Auditor



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

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.