

August 8, 2019

Ira K. Blake, Ph.D.
President
University of Houston - Clear Lake
2700 Bay Area Blvd.
Houston, Texas 77058

Dear Dr. Blake:

We have completed a post-payment audit of certain payroll and purchase transactions of the University of Houston - Clear Lake (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 Vice President of Administration and Finance Mark Denney on July 11, 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 Mark Denney in an email dated July 11, 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.



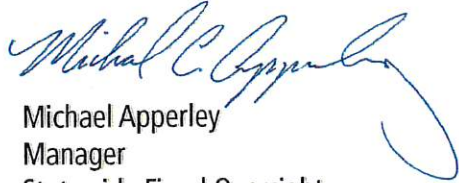
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Thank you for your cooperation. If we can be of any further assistance, please contact raymond.mcclintock@cpa.texas.gov or 512-463-4859.

Sincerely,

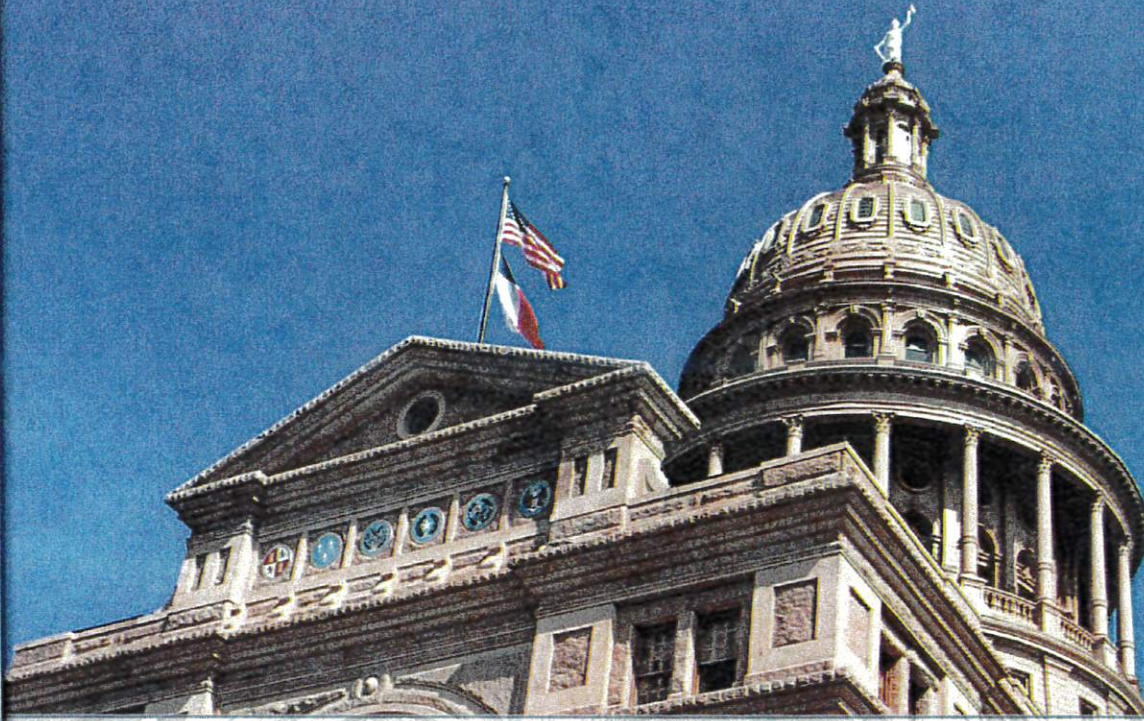


Michael Apperley
Manager
Statewide Fiscal Oversight
Fiscal Management Division

Attachments

cc: Don Guyton, Chief Audit Director, University of Houston
Usha Mathew, Associate Vice President, Finance, University of Houston - Clear Lake
Mark Denney, Vice President of Administration and Finance, University of Houston - Clear Lake
Raymond McClintock, Auditor, Texas Comptroller of Public Accounts





An Audit of the **University of Houston - Clear Lake**

**Audit Report # 759-18-Q2
August 8, 2019**

Glenn Hegar
Texas Comptroller of Public Accounts



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Executive Summary

Purpose and Scope

The objectives of the University of Houston - Clear Lake (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 Dec. 1, 2016, through Nov. 30, 2017.

Background

The University of Houston - Clear Lake is a student-centered, community-minded, partnership-oriented university that offers bachelor's, master's and selected doctoral programs to enhance the educational, economic and cultural environment of the Houston-Galveston metropolitan region. The University serves a diverse student body with special emphasis on undergraduate transfer, graduate and international students.

University of Houston - Clear
Lake website


<http://www.uhcl.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/procurement, contracts, security processes or property management. However, the University should consider making improvements to its payroll processes and segregation of duties over expenditure processing.

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 all pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> Missing statutory authority for certification incentives and compensation for emergency ride-out crews  Incorrect months of service/ incorrect longevity pay amounts 	Compliant, Findings Issued
Purchase/ Procurement Transactions	Did purchase and procurement transactions comply with all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Contract Transactions	Did contract transactions comply with all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Internal Control Structure</u>	Are duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	One employee can process and release payments through USAS. The same employee can process and release payrolls.	Compliant, Findings Issued
Security	Did all system access to process payments comply with all the Comptroller security guidelines?	No issues	Fully Compliant
Fixed Assets	Were tested assets in their intended location and properly reported in the State Property Accounting System?	No issues	Fully Compliant



Repeat Finding

Key Recommendations

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

- The University must update its policies and procedures to ensure that it does not pay salary that it does not have statutory authority to pay. The University must reimburse the state's treasury for the funds expended without legal authority.



- The University should ensure that prior state service months are properly verified and documented for all its employees and that employees do not receive a full month of service credit for a partial month of employment.
- To reduce risks to state funds, the University must have controls over expenditure processing that segregate each accounting task to the greatest extent possible. Ideally, no individual should be able to process transactions without another person's involvement.



Detailed Findings

Payroll Transactions

Auditors developed a representative sample of 20 employees (148 payroll transactions totaling \$321,259.27) to ensure the University complied with the GAA, other relevant statutes and Comptroller requirements. Audit tests revealed the following exceptions in payroll transactions.

Missing Statutory Authority for Certification Incentives and Compensation for Emergency Ride-Out Crews

Auditors identified five instances for a total of \$800 where the University sought reimbursement from state appropriated funds for certification pay to commissioned peace officers without having statutory authority to do so. In addition, auditors identified one instance in the amount of \$940 where the University sought reimbursement from state appropriated funds for an emergency ride-out crew payment without having statutory authority to do so.

Regarding the certification incentives, the University stated it was following the University of Houston System's policy, which states that the police department at each component may establish a program to pay commissioned police officers a monthly flat rate commensurate with their education level or Texas Commission on Law Enforcement certificate. The University will coordinate with the System to ensure its policies and procedures are in alignment with state statutes.

As for the ride-out crew payments, during emergency University closings, designated staff members are required to serve on emergency ride-out crews to ensure that state property is protected. The University has an internal policy to compensate emergency ride-out crews at a special rate, which includes their regular hourly rate and pay for the hours they accrued during the emergency closing. This results in a net pay that is twice their hourly rate of pay.

In order to increase the salary of an employee, the University must have either a specific appropriation for this purpose or a specific statute that provides for such increase. Therefore, the University cannot seek reimbursement from state appropriated funds to replenish any local funds originally used to process these payments. See [Texas Education Code, Section 51.006](#). The University stated that this was an oversight, and will update its policies to disallow reimbursement from appropriated monies.



Recommendation/Requirement

The University must update its policies and procedures to ensure that it does not pay salary that it does not have statutory authority to pay. The University must reimburse the state's treasury for the funds expended without legal authority.

University Response

UHCL, in accordance with Texas Government Code, Section 659.025 Payment of Compensatory Time for Emergency Services Personnel, will revise and implement its Compensation for Emergency Ride-Out Crew policy so that Emergency Personnel may be paid at the employee's regular hourly salary rate for all or a part of the hours of compensatory time earned during the course of their employment to provide services for the benefit of the public during emergency situations.

Incorrect State Effective Service Date/Incorrect Longevity Payments

Auditors identified one employee with incorrect months of service credit in the University's internal payroll system, resulting in incorrect longevity payments. The employee had prior state service at the University and was rehired on Aug. 16, 2002. Upon review of the employee's start and end dates at the University, auditors identified an incorrect count of months of service credit resulting in an overall longevity underpayment of \$3,000: \$2,980 outside of the sample and \$20 inside the sample.

Per the University, documents in the employee's file from 2002 showed that the benefits coordinator at the time informed the employee that his service date would be changed to May 16, 2000. The University believes the benefits coordinator made an entry error and accidentally changed the date to May 16, 2002, causing incorrect longevity pay.

As a result of the audit, the University corrected its internal system to reflect the accurate months of service credit. Since the employee no longer works for the University, it has taken steps to obtain the necessary information to process the payment due to the employee.

An employee may receive longevity pay for the month in which he or she has accrued at least two years of lifetime service credit not later than the last day of the preceding month. See [Texas Government Code, Section 659.043\(a\)\(3\)](#).

When an agency hires an employee, the agency must research whether the employee has prior state employment. If prior employment exists, the agency must confirm the amount of lifetime service credit and properly record it or risk of incorrectly paying longevity pay. See [Texas Payroll/Personnel Resource – Non-Salary Payments-Longevity Pay](#).



Recommendation/Requirement

The University should obtain the information necessary to process the underpayment to the employee. The University should also review payroll/personnel records to ensure that prior state service months are properly verified and documented for all its employees, including those employed as student employees. In addition, the University should ensure that employees do not receive a full month of service credit for a partial month of employment.

University Response

UHCL completed the processing of the underpayment to the employee and the employee received the payment due to him on Dec. 3, 2018. To ensure accurate calculations of each new employees' cumulative State of Texas service and longevity pay, the UHCL implemented new prior state service verification procedures in April 2015. Student employees are not full-time, benefits eligible, so they are not entitled to longevity pay. The new prior state service process ensures new hires do not receive a full month of service credit for a partial month worked. Under the new process, employees only receive credit for actual time/days worked for State of Texas agencies. The University has established a process to accurately verify the prior state service for all employees hired effective April 2015.

Payment Card Transactions

Auditors developed a representative sample of payment card transactions from an internal report (from the Citibank Custom Reporting system) totaling \$842,100.39 to ensure the University complied with the GAA, [eXpendit \(FPP I.005\)](#) and pertinent statutes. Audit tests revealed no exceptions for the group of transactions.

Contract Transactions

Auditors reviewed the procurement, payments and monitoring process of nine transactions on two contracts totaling \$650,632 for compliance with the GAA, the [State of Texas Procurement and Contract Management Guide](#), the University's internal policies and procedures, best practices and pertinent statutes. Audit tests revealed no exceptions for the two contracts.

Internal Control Structure

The review of the University's segregation of duties was limited to obtaining reports identifying current user access. The review did not include tests of existing mitigating controls. The audit tests revealed the following exceptions.



Control Weakness over Expenditure Processing

As part of the planning process for the post-payment audit, auditors reviewed certain limitations that the University placed on its accounting staff's ability to process expenditures. Auditors reviewed the University's security in the Uniform Statewide Accounting System (USAS), Texas Identification Number System (TINS) and voucher signature cards in effect on April 12, 2018. Auditors did not review or test any internal or compensating controls that the University may have relating to USAS, TINS security or internal transaction approvals.

The University had one employee who could both process and release payments through USAS. The same employee could both process and release payrolls. The University explained that due to its accounting staff limitations, it had some overlapping responsibility in its transaction approval process. The University received a schedule of this finding during fieldwork.

Auditors also ran a report to determine whether any of the University's payment documents processed through USAS during the audit period as a result of the action of only one individual. No issues were identified.

Recommendation/Requirement

To reduce risks to state funds, agencies should have controls over expenditure processing that segregate each accounting task to the greatest extent possible. Ideally, no individual should be able to process transactions within the statewide systems without another person's involvement.

Auditors strongly recommend that the University:

1. Limit user access to either enter/change voucher or release/approve batch.
2. If the University cannot separate the functions and/or does not have other internal mitigating controls in place, the University must set the document tracking control edit on the Agency Profile (DØ2) to either:
 - Prevent a user from releasing a batch that the same user entered or altered
 - OR-**
 - Warn the user when the same user attempts to release his or her own entries or changes.
3. See [USAS Accounting and Payment Control \(FPP B.005\)](#). Additionally, the University must review the preventive and detective controls over expenditure processing discussed in [USAS Accounting and Payment Control \(FPP B.005\)](#), such as the Risky Document Report (DAFR9840), which identifies documents that the same user entered or altered and then released for processing.



4. Work with the Comptroller's office Statewide Fiscal Systems security staff to set up user profiles that separate the entry and approval of payroll transactions in USAS.

University Response

With the Comptroller's Office fiscal security system staffs assistance, UHCL rectified the security access level of the identified employee (LHOW367) on Jan. 10, 2019. The employee now is able to only release batches. For record purposes, the identified employee did not release any batch that she entered or altered in Uniform Statewide Accounting System.

UHCL's security coordinator reviews security access of all employees on a quarterly basis to ensure internal controls and segregate each tasks to the greatest extent possible.

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. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner. Audit tests identified no findings.

Fixed Assets

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



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),
 - Uniform Statewide Payroll/Personnel System (USPS),
 - Standardized Payroll/Personnel Report System (SPRS) or
 - 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.

Audit Scope

Auditors reviewed a sample of the University of Houston - Clear Lake (University) payroll and purchase transactions that processed through USAS from Dec. 1, 2016, through Nov. 30, 2017, to determine compliance with applicable state laws.

The University receives 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 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.

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.



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 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

Raymond McClintock, Lead Auditor

Mayra Castillo, 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: <ul style="list-style-type: none"> • 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.

