



An Audit Report on

Benefits Proportionality at Higher Education Institutions

May 2016
Report No. 16-024



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Overall Conclusion

The University of Texas M. D. Anderson Cancer Center, the University of Texas at Austin, and Midwestern State University paid employee benefits in proportion to the sources of salary funding during fiscal year 2014. Those higher education institutions used General Revenue to pay for benefits only when they used General Revenue to pay for the associated salaries and wages. As a result, auditors concluded that they **complied with the State's proportionality requirements** during fiscal year 2014 (see text box for additional details on those requirements).

In addition to auditing three higher education institutions, the State Auditor's Office sent surveys to 58 higher education institutions asking them to report on the controls they had to help ensure that (1) **the State's interests were protected** and (2) the higher education institutions paid for benefits in proportion to the sources of funds from which they paid salaries and wages. Forty¹ of the higher education institutions surveyed reported they had controls to align and monitor source of funding limits or restrictions for salaries/wages and related benefits (see Chapter 4 and Appendix 3 for details).

Excerpts from Proportionality Requirements for the 2014-2015 Biennium

a) Unless otherwise provided, in order to maximize balances in the General Revenue Fund, payment for benefits paid from appropriated funds, including "local funds" and "education and general funds" as defined in §51.009 (a) and (c), Education Code, shall be proportional to the source of funds except for public and community junior colleges.

b) Unless otherwise specifically authorized by this Act, the funds appropriated by this Act out of the General Revenue Fund may not be expended for employee benefit costs, or other indirect costs, associated with the payment of salaries or wages, if the salaries or wages are paid from a source other than the General Revenue Fund except for public community or junior colleges...**Payments for employee benefit costs for salaries and wages paid from sources, including payments received pursuant to interagency agreements or as contract receipts, other than the General Revenue Fund shall be made in proportion to the source of funds from which the respective salary or wage is paid or, if the Comptroller determines that achieving proportionality at the time the payment is made would be impractical or inefficient, then the General Revenue Fund shall be reimbursed for any such payment made out of the General Revenue Fund.**

Source: Sections 6.08(a) and 6.08(b), page IX-27, General Appropriations Act (83rd Legislature).

Benefits

The benefits to which this report refers include the following:

- The state employer match for Social Security.
- Group health insurance.
- Retirement.
- Optional retirement program.

¹ Auditors received one survey response from the Texas A&M University System that covered all 14 higher education institutions within that university system. Auditors received one survey response from Texas State Technical College Central Office that covered five higher education institutions. Auditors received one survey response that covered both Sul Ross State University and Sul Ross State University Rio Grande College.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters and Related Issue Ratings		
Chapter	Title	Issue Rating ^a
1	The University of Texas M.D. Anderson Cancer Center Paid Benefits in Proportion to the Sources of Funds from Which It Paid the Corresponding Salaries and Wages	Low
2	The University of Texas at Austin Paid Benefits in Proportion to the Sources of Funds from Which It Paid the Corresponding Salaries and Wages	Low
3	Midwestern State University Paid Benefits in Proportion to the Source of Funds from Which It Paid the Corresponding Salaries and Wages	Low
4	All Higher Education Institutions Surveyed Reported They Had Internal Controls to Pay for Benefits in Proportion to the Sources of Funds from Which They Paid Salaries and Wages	Low

^a A subchapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A subchapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A subchapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

A subchapter is rated Low if the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Summary of Management's Response

At the end of Chapter 3 in this report, auditors made recommendations to address the issues identified during this audit at Midwestern State University. Midwestern State University agreed with the recommendations in that chapter.

Audit Objectives and Scope

The objectives of this audit were to:

- Survey and report on the controls that higher education institutions have to **help ensure that the State's interests are protected and that those entities** pay for benefits in proportion to the sources of funds from which they paid the corresponding salaries and wages.
- Determine whether selected higher education institutions complied with requirements to pay benefits in proportion to the sources of funds from which they paid the corresponding salaries and wages in accordance with

applicable statutes, General Appropriations Act requirements, and related institution policies and procedures.

The scope of this audit covered fiscal year 2014 employee salaries, wages, and benefits at the University of Texas M.D. Anderson Cancer Center, the University of Texas at Austin, and Midwestern State University. In addition, auditors sent surveys to higher education institutions asking them to report on their controls over benefits proportionality.

Contents

Detailed Results

Chapter 1	
The University of Texas M. D. Anderson Cancer Center Paid Benefits in Proportion to the Sources of Funds from Which It Paid the Corresponding Salaries and Wages	1
Chapter 2	
The University of Texas at Austin Paid Benefits in Proportion to the Sources of Funds from Which It Paid the Corresponding Salaries and Wages	2
Chapter 3	
Midwestern State University Paid Benefits in Proportion to the Sources of Funds from Which It Paid the Corresponding Salaries and Wages	3
Chapter 4	
All Higher Education Institutions Surveyed Reported They Had Internal Controls to Pay for Benefits in Proportion to the Sources of Funds from Which They Paid Salaries and Wages	6

Appendices

Appendix 1	
Objectives, Scope, and Methodology	11
Appendix 2	
Issue Rating Classifications and Descriptions	15
Appendix 3	
List of Higher Education Institutions Surveyed	16

Detailed Results

Chapter 1

The University of Texas M.D. Anderson Cancer Center Paid Benefits in Proportion to the Sources of Funds from Which It Paid the Corresponding Salaries and Wages

Chapter 1
Rating:
Low²

The University of Texas M.D. Anderson Cancer Center (Cancer Center) achieved benefits proportionality and used General Revenue to fund payroll-related expenditures for eligible employees.

Auditors tested benefits proportionality for 35 employees at the Cancer Center for fiscal year 2014. Specifically, auditors tested the 382 salary/wage and benefit earning statements for those 35 employees. The 382 salary/wage and benefit earning statements totaled \$4,712,610 in state salaries/wages and \$804,797 in benefit payments from state General Revenue. For all 382 salary/wage and benefit earning statements, the Cancer Center paid benefits from the same sources of funding as the respective salaries. All employees tested also held personnel positions that were eligible to receive salaries/wages and related benefits from General Revenue.

In addition, auditors tested 48 (8 percent) of 575 payroll adjustment vouchers for fiscal year 2014 to determine whether the adjustments achieved benefits proportionality, were reasonable, and were accurate (see text box for additional information on payroll adjustment vouchers). Those 48 payroll vouchers totaled \$115,763,070. All 48 payroll adjustment vouchers achieved benefits proportionality and were reasonable and accurate.

Payroll Adjustment Vouchers

For the purposes of this audit, auditors defined payroll adjustments as corrections and reversals a higher education institution made to its salary and benefit transactions.

Auditors also applied data analysis techniques to certain accounting transactions that had the potential to affect the proportionality of General Revenue-funded benefits. Those transactions totaled \$178,965,711. Auditors did not identify any transactions that adversely affected the proportionality of General Revenue-funded benefit payments.

² Chapter 1 is rated Low because auditors identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

The University of Texas at Austin Paid Benefits in Proportion to the Sources of Funds from Which It Paid the Corresponding Salaries and Wages

Chapter 2
Rating:
Low³

The University of Texas at Austin (UT-Austin) achieved benefits proportionality and used General Revenue to fund payroll-related expenditures for eligible employees.

Auditors tested benefits proportionality for 49 employees for fiscal year 2014. Specifically, auditors tested the 505 salary/wage and benefit earning statements for those 49 employees. The 505 salary/wage and benefit earning statements totaled \$7,448,351 in state salaries and wages and \$1,188,800 in benefit payments from state General Revenue. For all 505 salary/wage and benefit earning statements, UT-Austin paid benefits from the same sources of funding as the respective salaries. All employees tested also held personnel positions that were eligible to receive salaries/wages and related benefits from General Revenue.

In addition, auditors tested 10 payroll adjustment vouchers for fiscal year 2014 to determine whether the adjustments achieved benefits proportionality, were reasonable, and were accurate. Those 10 payroll vouchers totaled \$8,563,803. All 10 payroll adjustment vouchers achieved benefits proportionality and were reasonable and accurate.

Auditors also applied data analysis techniques to certain accounting transactions that had the potential to affect the proportionality of General Revenue-funded benefits. Those transactions totaled \$426,839,349. Auditors did not identify any transactions that adversely affected the proportionality of General Revenue-funded benefit payments.

³ Chapter 2 is rated Low because auditors identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Midwestern State University Paid Benefits in Proportion to the Sources of Funds from Which It Paid the Corresponding Salaries and Wages

Chapter 3
Rating:
Low ⁴

Midwestern State University (Midwestern) achieved benefits proportionality and used General Revenue to fund payroll-related expenditures for eligible employees.

Auditors tested benefits proportionality for 30 employees at Midwestern for fiscal year 2014. Specifically, auditors tested the 351 salary/wage and benefit earning statements for those 30 employees. The 351 salary/wage and benefit earning statements totaled \$1,421,515 in state salaries/wages and \$428,172 in benefit payments from state General Revenue. For all 351 salary/wage and benefit earning statements, Midwestern paid benefits from the same sources of funding as the respective salaries. All employees tested also held personnel positions that were eligible to receive salaries/wages and related benefits from General Revenue.

In addition, auditors tested all 11 payroll adjustment vouchers that were subject to benefits proportionality for fiscal year 2014 to determine whether the adjustments achieved benefits proportionality, were reasonable, and were accurate. Those 11 payroll vouchers totaled \$96,629. All 11 payroll adjustment vouchers achieved benefits proportionality, were reasonable, and were accurate.

Auditors also applied data analysis techniques to certain accounting transactions that had the potential to affect the proportionality of General Revenue-funded benefits. Those transactions totaled \$21,820,006. Auditors did not identify any transactions that adversely affected the proportionality of General Revenue-funded benefit payments.

However, during audit testing, auditors identified three employees who did not appear in Midwestern's monthly payroll file. By reviewing information in the Human Resources Information System at the Office of the Comptroller of Public Accounts, auditors determined that those three employees' benefits were reimbursed using General Revenue. Those three employees did not appear in Midwestern's monthly payroll file because Midwestern did not update a module in its accounting system after completing a reorganization.

⁴ Chapter 3 is rated Low because auditors identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Midwestern fully implemented most of the recommendations tested from a 2012 audit.

Midwestern fully implemented 3 (75 percent) of the 4 recommendations tested from *An Audit Report on Financial and Operational Processes at Midwestern State University* (State Auditor's Office Audit Report No. 12-044, July 2012). Those three recommendations were in the areas of disaster recovery/physical controls, reviewing system access, and bank reconciliations.

Midwestern's implementation of one recommendation to improve physical controls for its computer server room is ongoing. During this audit, auditors made some of the same observations made during the 2012 audit. Due to the sensitive nature of those observations, auditors provided Midwestern with specific information in writing to address those issues.

Recommendations

Midwestern should:

- Include all employees who are paid from state funds in its monthly payroll file.
- Continue to improve physical controls for its computer server room.

Management's Response

Midwestern State University has implemented additional internal controls to ensure every employee paid from state funds is included in each monthly payroll file submitted to the state for reimbursement, particularly in the event of future departmental reorganizations.

Implementation Date: Ongoing

Responsible Person: Controller

The university will continue to improve and monitor physical controls for the current computer server room. Additionally, the university plans to relocate the existing server room in Memorial Hall to the new Robert D. and Carol Gunn College of Health Sciences and Human Services building. Construction of the new building is expected to begin this fall and be completed by fall 2018. The new computer server room will be specifically designed to be compliant with all data security standards and will also incorporate recommendations made by the State Auditor's Office.

Implementation Date: Ongoing and September 2018

Responsible Person: Vice President for Business Affairs and Finance

All Higher Education Institutions Surveyed Reported They Had Internal Controls to Pay for Benefits in Proportion to the Sources of Funds from Which They Paid Salaries and Wages

Chapter 4
Rating:
Low ⁵

The State Auditor’s Office sent a survey to each higher education institution that was subject to benefits proportionality requirements in Sections 6.08(a) and 6.08(b), page IX-27, the General Appropriations Act (83rd Legislature). The survey asked eight questions that enabled the higher education institutions to report on their controls for complying with those requirements. Forty of the higher education institutions surveyed reported that they had controls to align benefits with salaries/wages funding sources and monitor sources of funding limits for salaries, wages, and related benefits.⁶

All higher education institutions reported that they had a methodology to align benefits with salaries/wages funding sources (see Table 2 for details).

Table 2

Aligning Benefits with Salaries/Wages Funding Sources		
Question 1(a). What is the higher education institution’s methodology for aligning staff salaries/wages and related benefits with source of funding?	Number of Higher Education Institutions That Responded	Percent of Higher Education Institutions That Responded
Position types are evaluated for General Revenue eligibility.	7	17.5%
A code/ID or numeric range is assigned to positions to align them to their source of funding.	7	17.5%
Salaries, wages, and benefits are aligned during the budgeting process.	18	45.0%
Information system/Other.	8	20.0%
Totals	40	100.0%

⁵ Chapter 4 is rated Low because auditors identified strengths that support the audited entity’s ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.

⁶ Auditors received one survey response from the Texas A&M University System that covered all 14 higher education institutions within that university system. Auditors received one survey response from Texas State Technical College Central Office that covered five higher education institutions. Auditors received one survey response that covered both Sul Ross State University and Sul Ross State University Rio Grande College.

All higher education institutions reported that they had controls to monitor the source of funding limits or restrictions for salaries/wages and related benefits (see Table 3 for details).

Table 3

Monitoring the Source of Funding Limits or Restrictions for Salaries/Wages and Related Benefits		
Question 1(b). How does the higher education institution monitor the source of funding limits or restrictions for salaries, wages, and related benefits?	Number of Higher Education Institutions That Responded	Percent of Higher Education Institutions That Responded
Monthly or quarterly payroll reconciliation.	18	45.0%
Payroll or budget (information system) controls.	14	35.0%
Budget office approves/reviews funding sources.	7	17.5%
Prepare a reconciliation and proportionality calculations using the Accounting Policy Statement 011 report template (APS 011) from the Office of the Comptroller of Public Accounts multiple times throughout the year. ^a	1	2.5%
Totals	40	100.0%

^a The Office of the Comptroller of Public Accounts (Comptroller's Office) developed APS 011 to provide guidance and a reporting mechanism for state entities to demonstrate proportionality as required by Section 6.08(d), page IX-27, the General Appropriations Act (83rd Legislature). Entities with multiple appropriated funds must complete a *Benefits Proportionality by Fund Report* (also known as the APS 011 report) and submit it annually to the Comptroller's Office by November 19.

All higher education institutions reported that they had the ability to track salaries, wages, and related benefits from multiple funding sources (see Table 4 for details).

Table 4

Tracking Salaries, Wages, and Related Benefits from Multiple Funding Sources		
Question 2. When a position is funded from multiple funding sources, describe how the higher education institution tracks the salaries/wages and related benefits paid for that position against those multiple funding sources?	Number of Higher Education Institutions That Responded	Percent of Higher Education Institutions That Responded
Use payroll information system controls to divide salary and wages between funding sources.	36	90.0%
Perform periodic payroll reconciliations.	1	2.5%
Use payroll information system controls to divide salary and wages between funding sources and perform periodic payroll reconciliations.	3	7.5%
Totals	40	100.0%

All higher education institutions reported that they had the ability to track salary, wage, and benefit changes; corrections; or transfers between General Revenue and other sources of funds (see Table 5 for details).

Table 5

Tracking Salary, Wage, and Benefit Changes; Corrections; or Transfers Between General Revenue and Other Sources of Funds		
Question 3. Does the higher education institution track salary/wage and related benefit eligibility changes (e.g., payroll action requests); corrections (e.g., payroll expenditure computation errors); and/or transfers (e.g., overages or shortages) between General Revenue and other sources of funding? If so, describe the process and available documentation to support any changes, corrections, and/or transfers.	Number of Higher Education Institutions That Responded	Percent of Higher Education Institutions That Responded
Reallocation and/or personnel action request forms.	27	67.5%
Information system controls initiated after payroll reconciliations.	9	22.5%
Departmental approval of change requests.	4	10.0%
Totals	40	100.0%

All higher education institutions that exhausted General Revenue at some point during the year reported that they had procedures to ensure that they no longer submitted the related benefits for reimbursement from General Revenue (see Table 6 for details).

Table 6

Stopping the Submission of Benefits for Reimbursement from General Revenue		
Question 4. Does the higher education institution generally exhaust its General Revenue appropriations for salaries/wages before the end of the fiscal year? If so, what procedures does the higher education institution have to ensure that it no longer submits the related benefits for reimbursement from the General Revenue fund?	Number of Higher Education Institutions That Responded	Percent of Higher Education Institutions That Responded
General Revenue - Dedicated (or other) funding covers payroll expenditures after General Revenue is exhausted and/or information system is set up to switch funding sources.	25	62.5%
Reimbursement is finalized at year end as a result of completing the APS 011 report.	2	5.0%
General Revenue is not exhausted.	9	22.5%
General Revenue is not expected to be exhausted but if it is, the information system is set up to switch funding sources.	4	10.0%
Totals	40	100.0%

Thirty-nine (98 percent) of the 40 higher education institutions reported that they had procedures to reconcile funding sources with salaries, wages, and benefits (see Table 7 for details).

Table 7

Reconciling Funding Sources with Salaries, Wages, and Benefits		
Question 5. What is the higher education institution's process for reconciling salaries/wages and related benefits paid against sources of funding?	Number of Higher Education Institutions That Responded	Percent of Higher Education Institutions That Responded
Each Education and General ^a payroll is reviewed/reconciled to the Office of the Comptroller of Public Accounts' Uniform Statewide Accounting System (USAS).	13	32.5%
Through monthly/quarterly review and/or reconciliation.	26	65.0%
No reconciliation process.	1	2.5%
Totals	40	100.0%
^a Education and general funds include tuition, fees, lab, and education fees, and specific fees that a higher education institution collects for selling educational material or medical services funded by General Revenue. All other income that a higher education institution collects locally is classified as institutional funds.		

All higher education institutions reported that they had controls to prevent reimbursement of benefits out of General Revenue or other appropriated funds when the related salaries and wages were paid from other sources of funding (see Table 8 for details).

Table 8

Preventing Reimbursement of Benefits from General Revenue or Other Appropriated Funds When the Related Salaries and Wages Were Paid from Other Sources Of Funding		
Question 6. What controls does the higher education institution have to prevent reimbursement of benefits out of General Revenue or other appropriated funds when the related salaries/wages were paid from other sources?	Number of Higher Education Institutions That Responded	Percent of Higher Education Institutions That Responded
Review of reimbursement request for reasonableness/exception reports are generated, reviewed, and corrected.	4	10.0%
Payroll detail is reconciled to USAS or other systems periodically.	2	5.0%
Information system controls ensure benefits follow salaries and wages.	26	65.0%
Both automated and manual controls.	8	20.0%
Totals	40	100.0%

Thirty-two (80 percent) of the 40 higher education institutions reported that they processed adjustments to correct proportionality (see Table 9 for details).

Table 9

Making Adjustments to Correct Proportionality		
Question 7. Has the higher education institution processed adjustments to correct the proportionate share of benefits to salaries/wages?	Number of Higher Education Institutions That Responded	Percent of Higher Education Institutions That Responded
Yes	32	80.0%
No	8	20.0%
Totals	40	100.0%

All higher education institutions reported that they achieved proportionality using a particular approach (see Table 10 for details).

Table 10

Achieving Proportionality		
Question 8. How is proportionality achieved?	Number of Higher Education Institutions That Responded	Percent of Higher Education Institutions That Responded
Calculated by method of finance. ^a	2	5.0%
Through adjustments in USAS along with the final APS 011 proportionality calculation.	17	42.5%
Through reconciliations, reviews, and adjustments.	12	30.0%
Through payroll/accounting information system controls.	9	22.5%
Totals	40	100.0%
^a “Method of finance” refers to the sources and amounts authorized to finance certain expenditures or appropriations made in the General Appropriations Act. For example, sources could include General Revenue, General Revenue - Dedicated, federal funds, and other funds.		

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Survey and report on the controls that higher education institutions have to help ensure that the State's interests are protected and that those entities pay for benefits in proportion to the sources of funds from which they paid the corresponding salaries and wages.
- Determine whether selected higher education institutions complied with requirements to pay benefits in proportion to the sources of funds from which they paid the corresponding salaries and wages in accordance with applicable statutes, General Appropriations Act requirements, and related institution policies and procedures.

Scope

The scope of this audit covered fiscal year 2014 employee salaries, wages, and benefits at the University of Texas M.D. Anderson Cancer Center (Cancer Center), the University of Texas at Austin (UT-Austin), and Midwestern State University (Midwestern).

Methodology

The audit methodology included conducting interviews with management and staff at UT-Austin, the Cancer Center, and Midwestern; reviewing policies and procedures for budgeting and payroll processing at the three higher education institutions; reviewing applicable laws and regulations; and performing selected tests and other procedures at the three higher education institutions. This audit also included work on information technology and follow-up procedures on recommendations from *An Audit Report on Financial and Operational Processes at Midwestern State University* (State Auditor's Office Report No. 12-044, July 2012).

In addition, auditors sent surveys to higher education institutions asking them to report on the controls they had to help ensure that (1) the State's interests were protected and (2) the higher education institutions paid for benefits in proportion to the sources of funds from which they paid salaries and wages.

Auditors performed data reliability procedures for the Uniform Statewide Accounting System (USAS), the UT-Austin budgeting and accounting system (the Departmental Financial Information Network, or DEFINE); the Cancer Center's budgeting and accounting system (PeopleSoft); and Northwestern's budgeting and accounting system (Banner). For each of the higher education institutions, auditors:

- Compared the salary, wage, and benefit data from the higher education institution's budgeting and accounting systems to information reported in USAS and the Human Resources Information System at the Office of the Comptroller of Public Accounts.
- Relied on previous State Auditor's Office general control work performed on DEFINE, PeopleSoft, and Banner.

Auditors determined that data in DEFINE, PeopleSoft, and Banner was sufficiently reliable for the purposes of this audit. However, auditors identified an issue at one of the higher education institutions, and that issue was included in this report. Specifically, for Northwestern, three employees did not appear in Northwestern's monthly payroll file. See Chapter 3 for more information.

Sampling Methodology

At each higher education institution audited, to test a sample of employees' salaries, wages, and benefits for fiscal year 2014, auditors randomly selected 30 employees. If auditors identified outliers through data analysis, auditors selected an additional sample using professional judgement based on the number of outliers identified. To test a sample of accounting adjustment vouchers, auditors selected a sample using professional judgment. The samples selected may not be representative of the population and, therefore, it would not be appropriate to extrapolate the test results to the population.

Information collected and reviewed for the three higher education institutions included the following:

- Budgeting and payroll policies and procedures.
- Budgeting and payroll process information.
- Salary, wage, and benefit data.
- Supporting documentation for salary, wage, and benefits data, including:
 - ♦ Employee earning statements.

- ♦ Budgeted sources of funding for employee earnings.
- Accounting adjustment payroll vouchers.
- Accounting adjustment data from USAS.

Procedures and tests conducted at the three higher education institutions included the following:

- Interviewed management and staff.
- Reviewed and observed budgeting and payroll procedures and processes.
- Verified the accuracy of salary, wage, and benefit data.
- Performed data analysis on salary, wage, and benefit data.
- Tested random and judgmental samples of employees whose salaries and benefits were paid for with General Revenue.
- Tested accounting adjustments for payroll.

Criteria used included the following:

- Section 6.08, page IX-27, the General Appropriations Act (83rd Legislature).
- Texas Education Code, Section 51.009.
- UT-Austin's *Handbook of Business Procedures*.
- *Midwestern's Policies and Procedures Manual*.
- *The Cancer Center's Handbook of Operating Procedures*.

Project Information

Audit fieldwork was conducted from August 2015 through January 2016. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Michael A. Simon, MBA, CGAP (Project Manager)

- Jamie Kelly, MBA (Assistant Project Manager)
- Mary K. Anderson
- Nathan Beavers
- Brady Bennett, MBA, CFE
- Adam Berry
- Brithani Byrd
- John Paul Hicks, MBA
- J. Scott Killingsworth, CIA, CGAP, CGFM (Quality Control Reviewer)
- Dana Musgrave, MBA (Quality Control Reviewer)
- Brianna C. Pierce, CPA (Quality Control Reviewer)
- James Timberlake, CIA, CFE (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; violation of state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 11 provides a description of the issue ratings presented in this report.

Table 11

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

List of Higher Education Institutions Surveyed

Table 12 lists (1) the 58 higher education institutions that auditors surveyed regarding their controls for achieving benefits proportional requirements and (2) whether they responded to the survey. The Texas A&M University System, Sul Ross State University, and Texas State Technical College responded for multiple higher education institutions.

Table 12

Higher Education Institutions Surveyed Regarding Their Controls for Achieving Benefits Proportional Requirements	
Higher Education Institution	Responded to Survey?
Angelo State University	Yes
Lamar Institute of Technology	Yes
Lamar State College - Orange	Yes
Lamar State College - Port Arthur	Yes
Lamar University	Yes
Sam Houston State University	Yes
Stephen F. Austin State University	Yes
Texas Southern University	Yes
Texas State University	Yes
Texas State University System	Yes
Texas Tech University	Yes
Texas Tech University Health Sciences Center	Yes
Texas Tech University Health Sciences Center - El Paso	Yes
Texas Tech University System	Yes
Texas Woman's University	Yes
University of Houston	Yes
University of Houston System	Yes
University of Houston - Clear Lake	Yes
University of Houston - Downtown	Yes
University of Houston - Victoria	Yes
University of North Texas	Yes
University of North Texas at Dallas	Yes
University of North Texas Health Science Center	Yes
University of North Texas System	Yes
The University of Texas at Arlington	Yes
The University of Texas at Dallas	Yes
The University of Texas at El Paso	Yes
The University of Texas Health Science Center at Houston	Yes
The University of Texas Health Science Center at San Antonio	Yes

Higher Education Institutions Surveyed Regarding Their Controls for Achieving Benefits Proportional Requirements	
Higher Education Institution	Responded to Survey?
The University of Texas Health Science Center at Tyler	Yes
The University of Texas Medical Branch at Galveston	Yes
The University of Texas of the Permian Basin	Yes
The University of Texas - Rio Grande Valley	Yes
The University of Texas at San Antonio	Yes
The University of Texas Southwestern Medical Center	Yes
The University of Texas System	Yes
The University of Texas at Tyler	Yes
Prairie View A&M University	
Tarleton State University	
Texas A&M International University	
Texas A&M University	
Texas A&M University - Central Texas	
Texas A&M University - Commerce	
Texas A&M University - Corpus Christi	
Texas A&M University at Galveston	Yes
Texas A&M University Health Science Center	
Texas A&M University - Kingsville	
Texas A&M University - San Antonio	
Texas A&M University System	
Texas A&M University - Texarkana	
West Texas A&M University	
Sul Ross State University	Yes
Sul Ross State University Rio Grande College	
Texas State Technical College Central Office	
Texas State Technical College - Harlingen	
Texas State Technical College - Marshall	Yes
Texas State Technical College - Waco	
Texas State Technical College - West Texas	

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The Honorable Robert Nichols, Member, Texas Senate
The Honorable John Otto, House Appropriations Committee
The Honorable Dennis Bonnen, House Ways and Means Committee

Office of the Governor

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