



Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

An Audit Report on

Selected State Entities' Compliance with Benefits Proportional Requirements

October 2021
Report No. 22-005



An Audit Report on

Selected State Entities' Compliance with Benefits Proportional Requirements

SAO Report No. 22-005
October 2021

Overall Conclusion

For appropriation year 2020, Sam Houston State University (SHSU) and Texas A&M University - Commerce (A&M Commerce) each completed a *Benefits Proportional by Method of Finance Report* in accordance with the Office of the Comptroller of Public Accounts' (Comptroller's Office) requirements.

In its accounting policy statement 011, the Comptroller's Office, under the authority of the General Appropriations Act, requires state entities to complete a *Benefits Proportional by Method of Finance Report* to administer benefits proportionality requirements (see text box for additional detail on those requirements).

Table 1 on the next page 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.)

Benefits Proportional by Method of Finance Requirements

The General Appropriations Act (86th Legislature) specified that "unless otherwise provided, in order to maximize balances in the General Revenue Fund, payment for benefits paid from appropriated funds...shall be proportional to the method of finance...." The benefits to which this report refers include retirement, group health insurance, employer portion of Social Security, benefit replacement pay (state agencies), and optional retirement benefit programs (institutions of higher education).

Funds not subject to this proportionality requirement may include, but are not limited to: certain appropriations for capital purposes, appropriations with salary restrictions, deficiency grant appropriations, emergency appropriations, or statutorily restricted funds that restrict or limit the use of funds to certain programs.

The Comptroller's Office accounting policy statement 011 requires entities with multiple methods of finance to complete a *Benefits Proportional by Method of Finance Report* and annually submit it by November 19 to the Comptroller's Office, Legislative Budget Board, and State Auditor's Office. The *Benefits Proportional by Method of Finance Report* calculates the percentage of total funding for each method of finance and then applies those percentages to determine the amount of benefits that should be paid by each method of finance.

Sources: The General Appropriations Act (86th Legislature) and the Comptroller's Office accounting policy statement 011.

This audit was conducted in accordance with Rider 8, page III-48, and Section 6.08, page IX-28, the General Appropriations Act (86th Legislature).

For more information regarding this report, please contact Michael Clayton, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

Table 1

Summary of Chapters and Related Issue Ratings		
Chapter	Title	Issue Rating ^a
1	SHSU's <i>Benefits Proportional by Method of Finance Report</i> for Appropriation Year 2020 Complied with Requirements	Low
2	A&M Commerce's <i>Benefits Proportional by Method of Finance Report</i> for Appropriation Year 2020 Complied with Requirements	Low

^a A chapter 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 chapter 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 chapter 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 the program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

A chapter is rated **Low** if the audit identified strengths that support the audited entity's ability to administer the program(s)/function(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.

While auditors identified no significant issues, auditors communicated other, less significant issues separately in writing to management of SHSU and A&M Commerce.

Audit Objective and Scope

The objective of this audit was to determine whether selected state entities complied with benefits proportional provisions in accordance with the Comptroller's Office rules, policies, and procedures.

The scope of this audit covered the Comptroller's Office *Benefits Proportional by Method of Finance Report* submitted by each entity for appropriation year 2020.

Contents

Detailed Results

Chapter 1 SHSU's <i>Benefits Proportional by Method of Finance Report</i> for Appropriation Year 2020 Complied with Requirements	1
Chapter 2 A&M Commerce's <i>Benefits Proportional by Method of Finance Report</i> for Appropriation Year 2020 Complied with Requirements	3

Appendices

Appendix 1 Objective, Scope, and Methodology	4
Appendix 2 Issue Rating Classifications and Descriptions	8
Appendix 3 Related State Auditor's Office Reports	9

Detailed Results

Chapter 1

SHSU's Benefits Proportional by Method of Finance Report for Appropriation Year 2020 Complied with Requirements

Chapter 1
Rating:

Low¹

Sam Houston State University (SHSU) completed its *Benefits Proportional by Method of Finance Report* for appropriation year 2020 in accordance with the Office of the Comptroller of Public Accounts' (Comptroller's Office) requirements in accounting policy statement 011.

For the appropriation year ending August 31, 2020, the Legislature appropriated \$58,530,469 in General Revenue and a net amount of \$34,277,479 in General Revenue – Dedicated funds² to SHSU.

For each applicable method of finance (see text box for information on methods of finance) listed in its appropriation year 2020 *Benefits Proportional by Method of Finance Report*, SHSU appropriately:

- Calculated the funding amounts subject to benefits proportionality requirements and, based on those amounts, accurately calculated the required proportionality percentages for the General Revenue and General Revenue – Dedicated methods of finance.
- Applied the required proportionality percentages to calculate the proportional amount of benefits paid from the General Revenue and General Revenue – Dedicated methods of finance. SHSU also

Methods of Finance

There are four methods of finance:

- General Revenue.
- General Revenue Fund - Dedicated (GR-D).
- Federal Funds.
- Other Funds.

Within each of the methods of finance, there may be multiple appropriated funds with different types of revenue. For example, a state agency may have multiple GR-D accounts within its GR-D method of finance, or the Other Funds method of finance may include appropriated receipts, interagency contracts, and certain grants and bond proceeds.

Source: The Comptroller's Office accounting policy statement 011.

¹ The risk related to the issues discussed in Chapter 1 is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(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.

² Statute requires General Revenue – Dedicated fund to be set aside for a particular purpose or for a specific entity. SHSU's General Revenue – Dedicated funds come from sources such as tuition and fees and included appropriated revenue from two professional development programs operating at SHSU: \$4,153,000 of Law Enforcement Management Institute of Texas funds and \$2,883,000 of Correctional Management Institute of Texas funds. Those institutes pay their own benefits; therefore, the revenues from the two programs do not affect SHSU's benefits proportionality calculation.

appropriately processed adjustments necessary to achieve benefits proportionality.

Auditors identified no significant issues regarding SHSU's preparation and calculation of its *Benefits Proportional by Method of Finance Report* for appropriation year 2020. However, auditors noted less significant issues and communicated those issues to SHSU management separately in writing.

A&M Commerce's Benefits Proportional by Method of Finance Report for Appropriation Year 2020 Complied with Requirements

**Chapter 2
Rating:**

Low³

Texas A&M University – Commerce (A&M Commerce) completed its *Benefits Proportional by Method of Finance Report* for appropriation year 2020 in accordance with the Office of the Comptroller of Public Accounts' (Comptroller's Office) requirements in accounting policy statement 011.

For the appropriation year ending August 31, 2020, the Legislature appropriated \$42,111,692 in General Revenue and a net amount of \$15,934,663 in General Revenue – Dedicated funds⁴ to A&M Commerce.

For each applicable method of finance (see text box in Chapter 1 for information on methods of finance) listed in its appropriation year 2020 *Benefits Proportional by Method of Finance Report*, A&M Commerce appropriately:

- Calculated the funding amounts subject to benefits proportionality requirements and, based on those amounts, accurately calculated the required proportionality percentages for the General Revenue and General Revenue – Dedicated methods of finance.
- Applied the required proportionality percentages to calculate the proportional amount of benefits paid from the General Revenue and General Revenue – Dedicated methods of finance. A&M Commerce also appropriately processed adjustments necessary to achieve benefits proportionality.

Auditors identified no significant issues regarding A&M Commerce's preparation and calculation of its *Benefits Proportional by Method of Finance Report* for appropriation year 2020. However, auditors noted less significant issues and communicated those issues to A&M Commerce's management separately in writing.

³ The risk related to the issues discussed in Chapter 2 is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(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.

⁴ Statute requires General Revenue – Dedicated funds to be set aside for a particular purpose or for a specific entity. A&M Commerce's General Revenue – Dedicated funds come from sources such as tuition and fees.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether selected state entities complied with benefits proportional provisions in accordance with the Office of the Comptroller of Public Accounts' (Comptroller's Office) rules, policies, and procedures.

Scope

The scope of this audit covered the Comptroller's Office *Benefits Proportional by Method of Finance Report* submitted by each entity for appropriation year 2020.

Methodology

The audit methodology included reviewing two higher education institutions' (institutions) processes for preparing and submitting the *Benefits Proportional by Method of Finance Report*; reviewing applicable laws, regulations, Comptroller's Office requirements, and institutional policies and procedures; collecting, reviewing, and analyzing the institutions' salaries and benefits expenditures and associated adjustments; and performing selected tests and other procedures.

Auditors did not use a sampling methodology on this audit and instead collected, reviewed, and analyzed complete populations of data to perform selected tests and other procedures. Therefore, it was not necessary for auditors to project testing results to the populations.

Data Reliability and Completeness

Auditors obtained revenue and expenditure data from the Uniform Statewide Accounting System (USAS) for the audited institutions. Auditors used the USAS expenditure and revenue data to determine whether certain information each institution reported on its *Benefits Proportional by Method of Finance Report* was complete and accurate for appropriation year 2020.

Auditors extracted revenue and expenditure data from USAS, verified the report parameters, performed analysis on the data output, and compared the data to additional supporting documents that the institutions provided to determine that the USAS revenue and expenditure data was sufficiently reliable for the purposes of this audit.

For certain information reported in the institutions' *Benefits Proportional by Method of Finance Reports*—including the institutions' local funding, retirement contributions paid by the State, and group insurance premiums—USAS data did not provide sufficient detail to allow auditors to determine reported amounts. Auditors relied on supporting documentation that the institutions provided—including data extracts from the institutions' internal accounting systems, reports from the Teacher Retirement System, and reports from the Employees Retirement System—to determine whether the information reported was complete and accurate for appropriation year 2020. For those particular instances, auditors reviewed report parameters used to generate supporting documentation, reviewed the institutions' documented reconciliations, and/or discussed with institution management the processes used for generating or obtaining the supporting documentation. Based on the procedures performed, auditors determined that the information in the institution-provided supporting documentation was sufficiently reliable for the purposes of this audit.

Information collected and reviewed included the following:

- The Comptroller's Office accounting policy statement 011, which includes requirements for preparing the *Benefits Proportional by Method of Finance Report*.
- Each institution's *Benefits Proportional by Method of Finance Report* for appropriation year 2020.
- Information obtained from interviews with institution management and staff regarding the institutions' processes for preparing and submitting the *Benefits Proportional by Method of Finance Report*.
- Expenditure, revenue, and accounting adjustment data from USAS.
- The institutions' supporting documentation for preparing the *Benefits Proportional by Method of Finance Report* for appropriation year 2020.

Procedures and tests conducted included the following:

- Reviewed the Comptroller's Office accounting policy statement 011 to understand the requirements for preparing and submitting the *Benefits Proportional by Method of Finance Report*.
- Conducted interviews with institution management and staff to understand the institutions' processes for preparing and submitting the *Benefits Proportional by Method of Finance Report*.

- Reviewed various sources of criteria, as applicable, including the General Appropriations Act (86th Legislature), the Texas Education Code, and institutional policies and procedures.
- Analyzed USAS expenditure and revenue data and institutional support to determine whether amounts reported on each institution's *Benefits Proportional by Method of Finance Report* were supported.
- Tested accounting adjustments reported on each institution's *Benefits Proportional by Method of Finance Report* to determine whether the institutions correctly made the required adjustments in USAS.
- Tested the completeness and accuracy of each institution's *Benefits Proportional by Method of Finance Report* by verifying that all financing sources were reported, amounts were supported by USAS data and supporting documentation, applicable funds were appropriately excluded, proper legal citations were cited, and mathematical calculations were correct.

Criteria used included the following:

- The Comptroller's Office accounting policy statement 011 – *Benefits Proportional by Method of Finance Report* instructions (updated October 2020).
- General Appropriations Act (86th Legislature).
- Texas Education Code, Chapter 51.
- The institutions' policies and procedures.

Project Information

Audit fieldwork was conducted from June 2021 through October 2021. 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:

- Rachel Lynne Goldman, CPA, CFE (Project Manager)
- Pamela A. Bradley, CPA, CFE (Assistant Project Manager)

- Matthew J. Montgomery, CFE
- Mark Snyder, CFE
- Robert G. Kiker, CFE, CGAP (Quality Control Reviewer)
- Michael Owen Clayton, CPA, CISA, CFE, CIDA (Audit Manager)

Issue Rating Classifications and Descriptions

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

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with 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 2 provides a description of the issue ratings presented in this report.

Table 2

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)/function(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 the 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.

Related State Auditor's Office Reports

Table 3

Related State Auditor's Office Reports		
Number	Report Name	Release Date
20-039	<i>An Audit Report on Selected State Entities' Compliance with Benefits Proportional Requirements</i>	August 2020
20-015	<i>An Audit Report on Selected State Entities' Compliance with Benefits Proportional Requirements</i>	December 2019
18-020	<i>An Audit Report on Selected Higher Education Institutions' Compliance with Benefits Proportional Requirements</i>	February 2018
17-022	<i>An Audit Report on The University of Texas at El Paso's Compliance with Benefits Proportional Requirements</i>	February 2017
16-024	<i>An Audit Report on Benefits Proportionality at Higher Education Institutions</i>	May 2016

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Dade Phelan, Speaker of the House, Joint Chair
The Honorable Jane Nelson, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable Greg Bonnen, House Appropriations Committee
The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Sam Houston State University

Members of Sam Houston State University's Board of Regents

Mr. Charlie Amato, Chairman
Mr. Duke Austin, First Vice Chairman
Mr. Gary Crain, Second Vice Chairman
Mr. Dionicio "Don" Flores
Ms. Nicki Harle
Ms. Sheila Faske
Mr. Stephen Lee
Mr. William F. Scott
Mr. Alan L. Tinsley
Ms. Camile Settegast, Student Regent
Dr. Alisa White, President

Texas A&M University-Commerce

Texas A&M University System Board of Regents

Mr. Tim Leach, Chairman
Mr. Bill Mahomes, Vice Chairman
Mr. Robert L. Albritton
Mr. James R. "Randy" Brooks
Mr. Jay Graham
Mr. Michael A. "Mike" Hernandez III
Ms. Elaine Mendoza
Mr. Michael J. Plank
Mr. Cliff Thomas
Ms. Matilin "Mati" Rigsby, Student Regent
Dr. Mark Rudin, President and Chief Executive Officer
Mr. John Sharp, Chancellor, Texas A&M University System



This document is not copyrighted. Readers may make additional copies of this report as needed. In addition, most State Auditor's Office reports may be downloaded from our Web site: www.sao.texas.gov.

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9500 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government visit <https://sao.fraud.texas.gov>.