



An Audit Report on

Selected State Entities' Compliance with Benefits Proportional Requirements

December 2019

Report No. 20-015



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Overall Conclusion

For appropriation year 2018, Stephen F. Austin State University (SFASU) and Texas A&M University-Kingsville (TAMUK) 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 *Benefits Proportional by Method of Finance Reports* to administer benefits proportionality requirements (see text box for additional detail on those requirements).

While auditors identified no significant issues, auditors noted a less significant issue at SFASU and communicated that issue to SFASU management separately in writing.

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.)

General Appropriations Act and Accounting Policy Statement 011 (Benefits Proportional by Method of Finance) Requirements

The General Appropriations Act (85th 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 the employer portion of Social Security, group health insurance, retirement, and optional retirement benefit programs.

As part of its implementation of that requirement, the Office of the Comptroller of Public Accounts (Comptroller's Office) developed accounting policy statement 011 (Benefits Proportional by Method of Finance) to provide guidance and a reporting mechanism for state entities to demonstrate benefits proportionality. 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 and corresponding appropriated funds.

Entities with multiple methods of finance must complete a *Benefits Proportional by Method of Finance Report* and annually submit it to the Comptroller's Office by November 19. An entity's chief financial officer must sign the report certifying that the entity complied with General Appropriations Act and Comptroller's Office requirements.

Sources: The General Appropriations Act (85th Legislature) and the Comptroller's Office.

This audit was conducted in accordance with Rider 8, page III-45, the General Appropriations Act (85th 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	Stephen F. Austin State University Completed Its <i>Benefits Proportional by Method of Finance Report</i> for Appropriation Year 2018 in Accordance with the Comptroller's Office's Requirements	Low
2	Texas A&M University-Kingsville Completed Its <i>Benefits Proportional by Method of Finance Report</i> for Appropriation Year 2018 in Accordance with the Comptroller's Office's 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)/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.

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's rules, policies, and procedures.

The scope of this audit covered the appropriation year 2018 *Benefits Proportional by Method of Finance Reports* that SFASU and TAMUK completed.

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Detailed Results

Chapter 1

Stephen F. Austin State University Completed Its Benefits Proportional by Method of Finance Report for Appropriation Year 2018 in Accordance with the Comptroller's Office's Requirements

**Chapter 1
Rating:
Low ¹**

Stephen F. Austin State University (SFASU) completed its *Benefits Proportional by Method of Finance Report* for appropriation year 2018 in accordance with the Comptroller's Office's requirements in accounting policy statement 011.

For the appropriation year ending August 31, 2018, the Legislature appropriated \$40,145,767 in General Revenue to SFASU.

For appropriation year 2018, SFASU also received a net amount of \$17,103,882 in General Revenue – Dedicated funds. Those funds, which are set aside by law for a particular purpose or entity, consisted of Educational and General funds (specifically, tuition and fees), as well as interest earned on State Treasury deposits.

For each applicable method of finance (for example, General Revenue, General Revenue – Dedicated) on its appropriation year 2018 *Benefits Proportional by Method of Finance Report*, SFASU appropriately calculated the funding amounts subject to benefits proportionality requirements (see text box for information on methods of finance). Based on those amounts, it accurately calculated the required proportionality percentages for the General Revenue and General Revenue – Dedicated methods of finance.

For each applicable method of finance for appropriation year 2018, SFASU appropriately applied the required proportionality percentages to calculate the proportional amount of benefits paid from the General Revenue and

Methods of Finance

Methods of finance are funding sources for agency and institution appropriations. The four methods of finance are:

- General Revenue.
- General Revenue Fund - Dedicated.
- Federal Funds.
- Other Funds.

Within each method of finance, there may be multiple appropriated funds with different types of revenue. For example, an institution may have multiple General Revenue Fund - Dedicated accounts within its General Revenue Fund - Dedicated 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's 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)/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.

General Revenue – Dedicated methods of finance. It also appropriately processed adjustments necessary to achieve benefits proportionality.

Auditors identified no significant issues regarding SFASU's preparation and calculation of its *Benefits Proportional by Method of Finance Report* for appropriation year 2018. However, auditors noted a less significant issue and communicated that issue to SFASU management separately in writing.

Texas A&M University-Kingsville Completed Its Benefits Proportional by Method of Finance Report for Appropriation Year 2018 in Accordance with the Comptroller's Office's Requirements

Chapter 2
Rating:
Low ²

Texas A&M University-Kingsville (TAMUK) completed its *Benefits Proportional by Method of Finance Report* for appropriation year 2018 in accordance with the Comptroller's Office's requirements in accounting policy statement 011.

For the appropriation year ending August 31, 2018, the Legislature appropriated \$38,756,260 in General Revenue to TAMUK.

For appropriation year 2018, TAMUK also received a net amount of \$16,167,419 in General Revenue – Dedicated funds. Those funds, which are set aside by law for a particular purpose or entity, consisted of Educational and General funds (specifically, tuition and fees), as well as interest earned on State Treasury deposits.

For each applicable method of finance (for example, General Revenue, General Revenue – Dedicated) on its appropriation year 2018 *Benefits Proportional by Method of Finance Report*, TAMUK appropriately calculated the funding amounts subject to benefits proportionality requirements. Based on those amounts, it accurately calculated the required proportionality percentages for the General Revenue and General Revenue – Dedicated methods of finance.

For each applicable method of finance for appropriation year 2018, TAMUK appropriately applied the required proportionality percentages to calculate the proportional amount of benefits paid from the General Revenue and General Revenue – Dedicated methods of finance. It also appropriately processed adjustments necessary to achieve benefits proportionality.

² 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)/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.

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 appropriation year 2018 *Benefits Proportional by Method of Finance Reports* that Stephen F. Austin State University (SFASU) and Texas A&M University-Kingsville (TAMUK) completed.

Methodology

The audit methodology included reviewing both higher education institutions' (institutions) processes for preparing and submitting the *Benefits Proportional by Method of Finance Report*; reviewing applicable laws, regulations, Comptroller's Office's 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 reviewed USAS revenue data for any potentially significant transactions and used the USAS expenditure data to determine whether certain information the institutions reported on their *Benefits Proportional by Method of Finance Reports* was complete and accurate for appropriation year 2018.

Auditors generated revenue and expenditure data from USAS, performed analysis on the data output, and relied on previous State Auditor's Office audit work to determine that the USAS revenue and expenditure data was sufficiently reliable for the purposes of this audit.

For certain information, auditors relied on self-reported supporting documentation that the institutions provided, including general ledger support, to determine whether the information they reported on their *Benefits Proportional by Method of Finance Reports* was complete and accurate for appropriation year 2018. For those particular instances, auditors reviewed report parameters used to generate supporting documentation, reviewed institutions' documented reconciliations and procedures, and/or discussed with institution management the processes used for generating the supporting documentation. Based on the procedures performed, auditors determined that the information in the institution-provided support was sufficiently reliable for the purposes of this audit.

Information collected and reviewed included the following:

- The institutions' *Benefits Proportional by Method of Finance Reports* for appropriation year 2018.
- Information obtained from interviews with institution management regarding the institutions' processes for preparing and submitting the *Benefits Proportional by Method of Finance Report*.
- Revenue, expenditure, and accounting adjustment data from USAS.
- The institutions' supporting documentation for preparing the *Benefits Proportional by Method of Finance Report* for appropriation year 2018.
- Other third-party sources of information.

Procedures and tests conducted included the following:

- Conducted interviews with institution management 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 Comptroller's Office's accounting policy statement 011 – Benefits Proportional by Method of Finance (updated November 2018), applicable sections of the General Appropriations Act (85th Legislature) and the Texas Education Code, and institutional policies and procedures.
- Reviewed USAS revenue data for any potentially significant transactions and analyzed USAS expenditure data to determine whether amounts reported on the institutions' *Benefits Proportional by Method of Finance Reports* were supported.

- Tested accounting adjustments reported on the institutions' *Benefits Proportional by Method of Finance Reports* to determine whether the institutions made the required adjustments in USAS.
- Tested the completeness and accuracy of the institutions' *Benefits Proportional by Method of Finance Reports*.

Criteria used included the following:

- Comptroller's Office's accounting policy statement 011 – Benefits Proportional by Method of Finance (updated November 2018).
- General Appropriations Act (85th Legislature).
- Texas Education Code, Chapter 51.
- The institutions' policies and procedures.

Project Information

Audit fieldwork was conducted from June 2019 through October 2019. We conducted this performance audit in accordance with generally accepted government auditing standards.³ 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 objective.

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

- Kelly Bratton, CFSA, CRMA, MBA (Project Manager)
- Shaun Alvis, JD (Assistant Project Manager)
- Nimita Azam, M.Sc. Finance
- Elijah Marchlewski
- Jessica I. Prieto
- Alexander Sumners
- Dana Musgrave, MBA (Quality Control Reviewer)
- Michael Owen Clayton, CPA, CISA, CFE, CIDA (Audit Manager)

³ United States Government Accountability Office's *Government Auditing Standards*, 2011 Revision.

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/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; 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)/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 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 Work

Related State Auditor's Office Work		
Number	Product Name	Release Date
18-020	An Audit Report on Selected Higher Education Institutions' Compliance with Benefits Proportional Requirements	February 2018
17-022	An Audit Report on The University of Texas at El Paso's Compliance with Benefits Proportional Requirements	February 2017
16-024	An Audit Report on Benefits Proportionality at Higher Education Institutions	May 2016
16-003	An Audit Report on Benefits Proportionality at the Office of the Comptroller of Public Accounts, the Teacher Retirement System, and the Employees Retirement System	September 2015

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The Honorable Dennis Bonnen, Speaker of the House, Joint Chair
The Honorable Jane Nelson, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable Dustin Burrows, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

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