



An Audit Report on

**Selected Higher Education Institutions’
Compliance with
Benefits Proportional Requirements**

February 2018
Report No. 18-020



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Overall Conclusion

For appropriation years 2016 and 2017, the Texas Tech University Health Sciences Center (Health Sciences Center) and Texas State Technical College (College) each completed a *Benefits Proportional by Fund 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 requires** state entities to complete *Benefits Proportional by Fund Reports* to administer benefits proportionality requirements (see text box for additional detail on those requirements).

While auditors identified no significant issues, auditors noted other, less significant issues at the College and communicated them to College management separately in writing.

Background Information

The General Appropriations Act (84th 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 source of funds...”** It also specified that **“...funds appropriated...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.”**

The benefits to which this report refers include the employer portion of Social Security, group health insurance, retirement, and optional retirement benefit programs.

Source: The General Appropriations Act (84th Legislature).

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 Texas Tech University Health Sciences Center Completed Its <i>Benefits Proportional by Fund Report</i> for Appropriation Years 2016 and 2017 in Accordance with Requirements	Low
2	Texas State Technical College Completed Its <i>Benefits Proportional by Fund Report</i> for Appropriation Years 2016 and 2017 in Accordance 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 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 higher education institutions 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 years 2016 and 2017 *Benefits Proportional by Fund Reports* that the Health Sciences Center and the College completed.

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Detailed Results

Chapter 1

The Texas Tech University Health Sciences Center Completed Its Benefits Proportional by Fund Report for Appropriation Years 2016 and 2017 in Accordance with Requirements

Chapter 1
Rating:
Low ¹

The Texas Tech University Health Sciences Center (Health Sciences Center) completed its *Benefits Proportional by Fund Report* for appropriation years 2016 and 2017 in accordance with the Office of the Comptroller of Public Accounts' (Comptroller's Office) requirements in accounting policy statement 011 (see text box for additional detail on those requirements).

For the appropriation years ending August 31, 2016, and August 31, 2017, the Legislature appropriated \$121,146,107 and \$121,240,517, respectively, in General Revenue to the Health Sciences Center.

For appropriation years 2016 and 2017, the Health Sciences Center reported that it also received net amounts of \$16,640,867 and \$14,885,600, respectively, 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 funding source (for example, General Revenue, General Revenue – Dedicated) on the *Benefits Proportional by Fund Report* for appropriation years 2016 and 2017, the Health Sciences Center appropriately calculated the funding amount subject to benefits proportionality requirements. Based upon those amounts, it accurately calculated the

The Accounting Policy Statement 011 *Benefits Proportional by Fund Report*

The Comptroller's Office developed the accounting policy statement 011 *Benefits Proportional by Fund Report* to provide guidance and a reporting mechanism for state entities to demonstrate benefits proportionality, as required by the General Appropriations Act. Entities with multiple appropriated funds must complete a *Benefits Proportional by Fund Report* and submit it **annually to the Comptroller's Office by November 19.**

The *Benefits Proportional by Fund Report* calculates the percentage of total funding for each appropriated fund and then uses those percentages to determine the amount of benefit charges that should be paid by each appropriated fund. State entities are required to make adjustments in the Uniform Statewide Accounting System if the funding source used to pay benefits does not match the calculated proportional benefits.

A **state entity's chief financial officer must sign the *Benefits Proportional by Fund Report*** certifying that the report complied with General Appropriations Act requirements and was completed in accordance with accounting policy statement 011 benefits proportional report guidelines.

Source: The Comptroller's Office.

¹ Chapter 1 is rated 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.

required funding proportionality percentages for the General Revenue and General Revenue – Dedicated funding sources.

For appropriations years 2016 and 2017, and for each applicable funding source, the Health Sciences Center appropriately applied the required funding proportionality percentages to calculate the proportional amount of benefits paid from the General Revenue and General Revenue – Dedicated funding sources. It also appropriately processed adjustments necessary to achieve benefits proportionality.

Texas State Technical College Completed Its Benefits Proportional by Fund Report for Appropriation Years 2016 and 2017 in Accordance with Requirements

Chapter 2
Rating:
Low ²

Texas State Technical College (College) completed its *Benefits Proportional by Fund Report* for appropriation years 2016 and 2017 in accordance with the Comptroller's Office's requirements in accounting policy statement 011. (It is important to note that the College completed one *Benefits Proportional by Fund Report* for each appropriation year on behalf of all of its campus locations. Those locations included the Texas State Technical College System and the Harlingen, Marshall, Waco, and West Texas campuses. The amounts on the College's *Benefits Proportional by Fund Report* were totals for all of those locations.)

For the appropriation years ending August 31, 2016, and August 31, 2017, the Legislature appropriated \$69,083,702 and \$69,019,022, respectively, in General Revenue to the College.

For appropriation years 2016 and 2017, the College reported that it also received net amounts of \$19,667,938 and \$24,008,652, respectively, in General Revenue – Dedicated funds. Those funds were tuition income and interest earned on State Treasury deposits.

For the General Revenue funding source on the *Benefits Proportional by Fund Report* for appropriation year 2016, the College appropriately calculated the funding amount subject to benefits proportionality requirements. Additionally, for the General Revenue – Dedicated funding source, the College calculated, within acceptable limits, the funding amount subject to benefits proportionality requirements. Based upon those amounts, it used the appropriate methodology to calculate the required funding proportionality percentages for the General Revenue and General Revenue – Dedicated funding sources.

For each applicable funding source (for example, General Revenue, General Revenue – Dedicated) on the *Benefits Proportional by Fund Report* for appropriation year 2017, the College appropriately calculated the funding amount subject to benefits proportionality requirements and accurately calculated the required funding proportionality percentages for those funding sources.

² Chapter 2 is rated 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.

For appropriation years 2016 and 2017, and for each applicable funding source, the College appropriately applied the required funding proportionality percentages to determine the proportional amount of benefits paid from the General Revenue and General Revenue – Dedicated funding sources.

Auditors identified no significant issues regarding the College's preparation and calculation of its *Benefits Proportional by Fund Report* for appropriation years 2016 and 2017. However, auditors noted other, less significant issues and communicated them to College management separately in writing.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether selected higher education institutions 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 years 2016 and 2017 *Benefits Proportional by Fund Reports* that the Texas Tech University Health Sciences Center (Health Sciences Center) and Texas State Technical College (College) completed.

Methodology

The audit methodology included reviewing both higher education institutions' (institutions) processes for preparing and submitting the *Benefits Proportional by Fund 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.

Data Reliability and Completeness

Auditors obtained expenditure data from the Uniform Statewide Accounting System (USAS) for the audited institutions. Auditors used that USAS data to determine whether certain information the institutions reported on their *Benefits Proportional by Fund Reports* was complete and accurate for appropriation years 2016 and 2017.

Auditors generated 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 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 to determine whether the information they reported on their *Benefits Proportional by Fund Reports* was accurate for appropriation years 2016 and 2017. For those particular

instances, auditors reviewed report parameters and/or discussed with institution management the processes used for generating the supporting documentation. Based upon the limited 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 Fund Reports* for appropriation years 2016 and 2017.
- Internal control questionnaires that the institutions completed describing their processes for preparing and submitting the *Benefits Proportional by Fund Report*.
- Expenditure and accounting adjustment data from USAS.
- The institutions' supporting documentation for preparing the *Benefits Proportional by Fund Reports* for appropriation years 2016 and 2017.
- Other third-party sources of information.

Procedures and tests conducted included the following:

- Reviewed institution-prepared internal control questionnaires to understand the institutions' processes for preparing and submitting the *Benefits Proportional by Fund Report*.
- Reviewed various sources of criteria, as applicable, including the Comptroller's Office accounting policy statement 011 – Benefits Proportional by Fund (updated October 2016), applicable sections of the General Appropriations Act (84th Legislature), and the Texas Education Code.
- Analyzed USAS expenditure data to determine whether amounts reported on the institutions' *Benefits Proportional by Fund Reports* were supported.
- Tested accounting adjustments reported on the institutions' *Benefits Proportional by Fund Reports* to determine whether the institutions made the required adjustments in USAS.
- Tested the completeness and accuracy of the institutions' *Benefits Proportional by Fund Reports*.

Criteria used included the following:

- Comptroller's Office's accounting policy statement 011 – Benefits Proportional by Fund (updated October 2016).
- General Appropriations Act (84th Legislature).
- Texas Education Code, Chapter 51.

Project Information

Audit fieldwork was conducted from October 2017 through February 2018. 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:

- Jennifer Brantley, MS, CPA (Project Manager)
- Kelly Bratton, CFSA, CRMA, MBA (Assistant Project Manager)
- Arnton Gray
- Douglas Jarnagan, MAcc
- Nathan Stein
- Mary Ann Wise, CPA, CFE (Quality Control Reviewer)
- Michael Simon, MBA, CGAP (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; 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 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.
Medium	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(s) and reduce risks to a more desirable level.
High	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(s) and reduce risks to the audited entity.
Priority	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(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
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 Joe Straus III, Speaker of the House, Joint Chair
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The Honorable Robert Nichols, Member, Texas Senate
The Honorable John Zerwas, House Appropriations Committee
The Honorable Dennis Bonnen, House Ways and Means Committee

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