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State Auditor

An Audit Report on
**Selected State Entities' Compliance with
Benefits Proportional Requirements**

May 2022
Report No. 22-029



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Overall Conclusion

For appropriation year 2021, West Texas A&M University (University) reported funding amounts and most benefit expenses on its *Benefits Proportional by Method of Finance Report* in accordance with the Office of the Comptroller of Public Accounts' (Comptroller's Office) requirements. However, the University inaccurately reported retirement benefits.

Lamar Institute of Technology (Institute) correctly completed its appropriation year 2021 *Benefits Proportional by Method of Finance Report*.

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, insurance, Social Security, and optional retirement programs.

Funds not subject to this proportionality requirement may include, but are not limited to, certain appropriations for capital purchases, appropriations with salary restrictions, deficiency grant appropriations, emergency appropriations, and funds restricted by statute to certain programs.

The Comptroller's Office accounting policy statement 011 requires each state entity with multiple methods of finance to complete a *Benefits Proportional by Method of Finance Report* and submit it annually by November 19 to the Comptroller's Office, the Legislative Budget Board, and the 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.

Table 1

Summary of Chapters and Related Issue Ratings		
Chapter	Title	Issue Rating ^a
1	West Texas A&M University Correctly Reported Funding Amounts and Most Benefits Paid; However, It Incorrectly Reported Retirement Benefits	Medium
2	Lamar Institute of Technology's <i>Benefits Proportional by Method of Finance Report</i> 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.

Summary of Management's Response

At the end of Chapter 1 in this report, auditors made recommendations to address the issues identified during this audit. The University's management agreed with the recommendations.

Audit Objectives 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 West Texas A&M University and by Lamar Institute of Technology for appropriation year 2021.

Contents

Detailed Results

Chapter 1	
West Texas A&M University Correctly Reported Funding Amounts and Most Benefits Paid; However, It Incorrectly Reported Retirement Benefits.....	1
Chapter 2	
Lamar Institute of Technology’s <i>Benefits Proportional by Method of Finance Report</i> Complied with Requirements	3

Appendices

Appendix 1	
Objective, Scope, and Methodology	4
Appendix 2	
Issue Rating Classifications and Descriptions.....	7
Appendix 3	
Internal Control Components	8
Appendix 4	
Related State Auditor’s Office Reports	9

Detailed Results

Chapter 1

West Texas A&M University Correctly Reported Funding Amounts and Most Benefits Paid; However, It Incorrectly Reported Retirement Benefits

Chapter 1
Rating:
Medium¹

Although West Texas A&M University (University) incorrectly reported retirement benefits, it otherwise completed its *Benefits Proportional by Method of Finance Report (Report)* for appropriation year 2021 in accordance with the Office of the Comptroller of Public Accounts' (Comptroller's Office) accounting policy statement 011.

For 2021, the Legislature appropriated \$35,145,294 in General Revenue to the University, and the University reported \$14,707,623 in General Revenue – Dedicated funds.²

For each applicable method of finance (see text box for information on methods of finance) listed in its appropriation year 2021 *Report*, the University appropriately:

- Calculated the funding amounts subject to benefits proportionality requirements.
- Reported the amount of benefits paid for Social Security, group insurance, and the optional retirement program from the General Revenue and General Revenue – Dedicated methods of finance.

However, the University did not report Teacher Retirement System (TRS) retirement benefits as required by the Comptroller's Office. Specifically:

Methods of Finance

State entities have four methods of finance:

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

Each method of finance may include 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 Medium because they 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(s) and reduce risks to a more desirable level.

² Statute requires General Revenue – Dedicated funds to be set aside for a particular purpose or for a specific entity. The University's General Revenue – Dedicated funds come from sources such as tuition and fees, as well as interest earned on state deposits and treasury investments.

- The University reported \$115,449 in TRS retirement benefit expenses for 2021 that were incurred in the prior fiscal year. The Comptroller’s Office requires universities to report payments of benefits for the applicable reporting period only.
- The University reported \$17,752 in TRS retirement benefits for which it could not provide support.

The University’s accounting system contained a programming error that incorrectly calculated the amount of TRS retirement benefits to be paid on the University’s behalf from General Revenue. As a result, the University’s proportionality calculation in its *Report* overstated the amount of benefits to be paid with General Revenue by \$112,383 and the amount of benefits to be paid with General Revenue – Dedicated by \$20,817.³

Recommendations

The University should:

- Work with the Comptroller’s Office to adjust previously submitted reports, as needed.
- Program its accounting system to accurately calculate benefit payments.

Management’s Response

The University agrees with the Texas State Auditor's recommendations and responds to each point accordingly:

1. *Our team is currently working with our State Comptroller Office Appropriations Control Officer to adjust and update the APS 011 retirement benefit totals and post any necessary updates in USAS.*
2. *The system error was corrected in late FY21 once the issue was determined. We followed up last fall to ensure the issue did not re-occur and all is working as intended for FY22.*

³ Amounts do not sum precisely to those above due to rounding.

Lamar Institute of Technology's Benefits Proportional by Method of Finance Report Complied with Requirements

Chapter 2

Rating:

Low ⁴

Lamar Institute of Technology (Institute) completed its *Benefits Proportional by Method of Finance Report (Report)* for appropriation year 2021 in accordance with the Office of the Comptroller of Public Accounts' (Comptroller's Office) accounting policy statement 011.

For 2021, the Legislature appropriated \$14,282,770 in General Revenue to the Institute, and the Institute reported \$2,832,624 in General Revenue – Dedicated funds.⁵

For each applicable method of finance (see text box in Chapter 1 for information on methods of finance) listed in its appropriation year 2021 *Report*, the Institute 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.
- Reported the amount of benefits paid for Social Security, group insurance, Teacher Retirement System retirement benefits, and the optional retirement program, and applied the required percentages to calculate the proportional amount of benefits paid from the General Revenue and General Revenue – Dedicated methods of finance.

While the Institute made minor errors, those errors had no significant impact on the benefits proportionality calculations.

⁴ 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.

⁵ Statute requires General Revenue – Dedicated funds to be set aside for a particular purpose or for a specific entity. The Institute's General Revenue – Dedicated funds come from sources such as tuition and fees, as well as interest earned on state deposits and treasury investments.

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 (Report)* submitted by West Texas A&M University and by Lamar Institute of Technology for appropriation year 2021. The scope also included a review of significant internal control components related to each entity's *Report* (see Appendix 3 for more information about internal control components).

Methodology

The audit methodology included verifying that each entity's *Report* was complete, accurate, and supported by Uniform Statewide Accounting System (USAS) data or other applicable documentation, and that each *Report* was reviewed and approved by entity management prior to submission.

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.

In addition, during the audit, matters not required to be reported in accordance with *Government Auditing Standards* were communicated to the entities' management for consideration.

Data Reliability and Completeness

Auditors used USAS expenditure and revenue data to corroborate certain information in each entity's *Report*.

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

For data extracts from the entities' internal accounting systems and reports from the Teacher Retirement System, auditors discussed with entity management the processes used for generating or obtaining the supporting documentation and reviewed the parameters used to generate the reports and/or tied the reports to other corroborating supporting documentation. Based on the procedures performed, auditors determined that those data extracts were sufficiently reliable for the purposes of this audit.

Information collected and reviewed included the following:

- Each entity's *Report* for appropriation year 2021.
- Each entity's policies and procedures for preparing and submitting its *Report*.
- Expenditure, revenue, and accounting adjustment data from USAS.
- Each entity's supporting documentation for preparing its *Report* for appropriation year 2021.

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 *Report*.
- Conducted interviews with entity management and staff to understand the entities' processes for preparing and submitting the *Report*.
- Reviewed various sources of criteria, as applicable, including the General Appropriations Act (86th Legislature), the Texas Education Code, and the entities' policies and procedures.
- Analyzed USAS expenditure and revenue data and institutional support to determine whether the amounts reported by each entity were supported.
- Tested accounting adjustments in each entity's *Report* to determine whether the entities correctly made the required adjustments in USAS.
- Tested the completeness and accuracy of each entity's *Report* by verifying that all financing sources were reported, amounts were supported by USAS data and supporting documentation, applicable funds were appropriately excluded, legal citations were proper, 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 2021).
- General Appropriations Act (86th Legislature).
- Texas Education Code, Chapter 51.
- The entities' policies and procedures.

Project Information

Audit fieldwork was conducted from January 2022 through May 2022. 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:

- Tony White, CFE (Project Manager)
- Pamela A. Bradley, CPA, CFE (Assistant Project Manager)
- Steven Arnold, CFE
- Brady Bennett, MBA, CFE, CGAP, CICA
- Donna Knight, CFE
- Robert G. Kiker, CFE, CGAP (Quality Control Reviewer)
- Lauren Godfrey, CIA, CGAP (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.

Internal Control Components

Internal control is a process used by management to help an entity achieve its objectives. The U.S. Government Accountability Office's *Government Auditing Standards* require auditors to assess internal control when internal control is significant to the audit objectives. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) established a framework for five integrated components of internal control, which are listed in Table 3.

Table 3

Internal Control Components	
Component	Component Description
Control Environment	The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
Risk Assessment	Risk assessment is the entity's identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how the risks should be managed.
Control Activities	Control activities are the policies and procedures that help ensure that management's directives are carried out.
Information and Communication	Information and communication are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
Monitoring Activities	Monitoring is a process that assesses the quality of internal control performance over time.

Source: Internal Control - Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, May 2013.

Related State Auditor's Office Reports

Table 4

Related State Auditor's Office Reports		
Number	Report Name	Release Date
22-005	<i>An Audit Report on Selected State Entities' Compliance with Benefits Proportional Requirements</i>	October 2021
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

Copies of this report have been distributed to the following:

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The Honorable Dade Phelan, Speaker of the House, Joint Chair
The Honorable Joan Huffman, 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

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