



An Audit Report on

Selected State Entities' Compliance with Benefits Proportional Requirements

August 2020

Report No. 20-039



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Overall Conclusion

For appropriation year 2019, the University of North Texas at Dallas (University) and the University of North Texas Health Science Center at Fort Worth (Health Science Center) 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.)

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.

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 Cesar Saldivar, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

Table 1

Summary of Chapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating ^a
1	The University of North Texas at Dallas' <i>Benefits Proportional by Method of Finance Report</i> Complied with Requirements	Low
2	The University of North Texas Health Science Center at Fort Worth'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 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.

Auditors communicated other, less significant issues separately in writing to management of the University.

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 2019 *Benefits Proportional by Method of Finance Report* that the University and Health Science Center each completed.

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Detailed Results

Chapter 1

The University of North Texas at Dallas' Benefits Proportional by Method of Finance Report Complied with Requirements

**Chapter 1
Rating:**

Low¹

The University of North Texas at Dallas (University) completed its *Benefits Proportional by Method of Finance Report* for appropriation year 2019 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, 2019, the Legislature appropriated \$22,166,741 in General Revenue to the University. It also received a net amount of \$6,630,888 in General Revenue – Dedicated funds².

The University had controls and policies and procedures in place to ensure that it compiled its appropriation year 2019 *Benefits Proportional by Method of Finance Report* in accordance with the Comptroller's Office requirements.

As a result, for each applicable method of finance (for example, General Revenue, General Revenue – Dedicated) on its appropriation year 2019 *Benefits Proportional by Method of Finance Report*, the University 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. It also appropriately processed adjustments necessary to achieve benefits proportionality.

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 The University's General Revenue – Dedicated funds, which are set aside by law for a particular purpose or entity, come from sources such as tuition and fees.

The University of North Texas Health Science Center at Fort Worth's Benefits Proportional by Method of Finance Report Complied with Requirements

**Chapter 2
Rating:
Low³**

The University of North Texas Health Science Center at Fort Worth (Health Science Center) completed its *Benefits Proportional by Method of Finance Report* for appropriation year 2019 in accordance with the Comptroller's Office's requirements in accounting policy statement 011.

For the appropriation year ending August 31, 2019, the Legislature appropriated \$88,302,840 in General Revenue to the Health Science Center. It also received a net amount of \$7,960,009 in General Revenue – Dedicated funds⁴.

The Health Science Center had controls and policies and procedures in place to ensure that it compiled its appropriation year 2019 *Benefits Proportional by Method of Finance Report* in accordance with the Comptroller's Office requirements.

As a result, for each applicable method of finance (for example, General Revenue, General Revenue – Dedicated) on its appropriation year 2019 *Benefits Proportional by Method of Finance Report*, the Health Science Center 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. It also appropriately processed adjustments necessary to achieve benefits proportionality.

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 The Health Science Center's General Revenue – Dedicated funds, which are set aside by law for a particular purpose or entity, 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 appropriation year 2019 *Benefits Proportional by Method of Finance Report* that the University of North Texas at Dallas and the University of North Texas Health Science Center at Fort Worth each completed. The scope also included a review of significant internal control components related to each report (see Appendix 3 for more information about internal control components).

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, auditors did not need 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 that each institution reported on its *Benefits Proportional by Method of Finance Report* was complete and accurate for appropriation year 2019.

Auditors generated revenue and expenditure data from USAS, analyzed 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 that each institution reported on its *Benefits Proportional by Method of Finance Report* was complete and accurate for appropriation year 2019. For those instances, auditors reviewed report parameters used to generate supporting documentation, reviewed the 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 supporting documentation the institutions provided was sufficiently reliable for the purposes of this audit.

Information collected and reviewed included the following:

- Each institution's *Benefits Proportional by Method of Finance Report* for appropriation year 2019.
- Information obtained from interviews with institution management regarding each institution's processes for preparing and submitting its *Benefits Proportional by Method of Finance Report*.
- Expenditure, revenue, and accounting adjustment data from USAS.
- Each institution's supporting documentation for preparing its *Benefits Proportional by Method of Finance Report* for appropriation year 2019.

Procedures and tests conducted included the following:

- Conducted interviews with institution management to understand each institution's processes for preparing and submitting its *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 2019), applicable sections of the General Appropriations Act (85th Legislature) and the Texas Education Code, and institutional policies and procedures.

- Analyzed USAS expenditure data 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 made the required adjustments in USAS.
- Tested the completeness and accuracy of each institution's *Benefits Proportional by Method of Finance Report*.

Criteria used included the following:

- Comptroller's Office's accounting policy statement 011 – Benefits Proportional by Method of Finance (updated November 2019).
- General Appropriations Act (85th Legislature).
- Texas Education Code, Chapter 51.
- The institutions' policies and procedures.

Project Information

Audit fieldwork was conducted from May 2020 through July 2020. 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:

- Scott Armstrong, CGAP (Project Manager)
- Shaun Alvis, JD (Assistant Project Manager)
- Alexander Grunstein, CFE, CFCS
- Jess Whittenton
- Dana Musgrave, MBA (Quality Control Reviewer)
- Cesar Saldivar, CFE, 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/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 <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.

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 *Generally Accepted 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 5 integrated components and 17 principles of internal control which are listed in Table 3.

Table 3

Internal Control Components and Principles		
Component	Component Description	Principles
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.	<ul style="list-style-type: none"> ▪ The organization demonstrates a commitment to integrity and ethical values. ▪ The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control. ▪ Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives. ▪ The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives. ▪ The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.
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.	<ul style="list-style-type: none"> ▪ The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives. ▪ The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed. ▪ The organization considers the potential for fraud in assessing risks to the achievement of objectives. ▪ The organization identifies and assesses changes that could significantly impact the system of internal control.
Control Activities	Control activities are the policies and procedures that help ensure that management’s directives are carried out.	<ul style="list-style-type: none"> ▪ The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels. ▪ The organization selects and develops general control activities over technology to support the achievement of objectives. ▪ The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

Internal Control Components and Principles		
Component	Component Description	Principles
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.	<ul style="list-style-type: none"> ▪ The organization obtains or generates and uses relevant, quality information to support the functioning of internal control. ▪ The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control. ▪ The organization communicates with external parties regarding matters affecting the functioning of internal control.
Monitoring Activities	Monitoring is a process that assesses the quality of internal control performance over time.	<ul style="list-style-type: none"> ▪ The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning. ▪ The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

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
20-015	<i>An Audit Report on Selected Higher Education Institutions' 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:

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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 Giovanni Capriglione, House Appropriations Committee
The Honorable Dustin Burrows, House Ways and Means Committee

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