State Auditor's Office

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State Auditor

An Investigative Report on

The University of North Texas

September 23, 2014

Members of the Legislative Audit Committee:

In September 2012, the State Auditor's Office referred an anonymous complaint received through its Fraud, Waste, and Abuse Hotline to the University of North Texas (University) for its review and requested that the University provide a written response regarding its findings.

In March 2014, the University of North Texas System (System) provided the State Auditor's Office with information regarding state-paid benefits that it discovered during its review of that complaint. As a result of that information, the State Auditor's Office initiated an investigation into payroll-related expenditures at the University. As part of that investigation, the State Auditor's Office reviewed (1) the amount that the System and its contracted audit and consulting firm (consultant) calculated for the potential excess state funding the University obtained for benefits associated with salary and wage expenses for appropriation years 2004 to 2014 and (2) the methods the University used to obtain that funding.

The System and its consultant calculated that the amount of potential excess state funding the University obtained was $83,461,691 for appropriation years 2004 to 2014. As discussed in more detail below, the University obtained that funding by (1) manipulating payroll expenditures in the Uniform Statewide Accounting System (USAS) and (2) paying employees with state funds when those employees were not eligible to be paid with state funds.

The University manipulated payroll expenditures recorded in USAS.

Initially, the University paid salaries out of its institutional (non-State Treasury) funds. Subsequently, the University requested reimbursements from the General Revenue Fund (State Treasury funds) to reimburse its institutional account for eligible salaries, wages, and associated benefits for which the State should have paid (see text box for information on state-paid benefits). That is a typical practice of state higher education institutions.

> **State-paid Benefits**
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> Employer-paid, state-funded benefits are benefits associated with eligible salary and wage expenses that the State funds. They include payments for:
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> - Group insurance.
> - Retirement.
> - Social Security.
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> Source: Office of the Comptroller of Public Accounts' Accounting Policy Statement 011.

However, when the University exhausted its General Revenue Fund appropriations for salaries and wages (generally in the second half of a fiscal year), it manipulated expenditure amounts recorded in USAS. Specifically, the University processed journal entries to reduce General Revenue expenditures for salaries and wages and offset those transactions by (1) using institutional funds to make cash deposits to the General Revenue Fund or (2) transferring expenditures to other accounts after the State had paid for benefits.

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The cash deposits the University made to the General Revenue Fund reimbursed the State for salary expenses but not for the state-funded benefits associated with those salary expenses. That practice violated the requirement that employee benefits be paid from the same source of funds as the salaries associated with those benefits. Manipulating expenditures in USAS is not appropriate and, based on interviews with officials at the Office of the Comptroller of Public Accounts (Comptroller's Office), is not a typical practice at other higher education institutions.

The System and its consultant estimated that, of the $83,461,691 in potential excess state funding:

- Approximately $69.7 million was related to excess payments for benefits resulting from salary and wage expenses that exceeded legislative appropriations. The State Auditor's Office determined that estimate was reasonable by independently obtaining and analyzing data from USAS, the Employees Retirement System, and the Teacher Retirement System.

- Approximately $5.9 million was related to the salaries and benefits for individuals in positions that were not eligible for state funding. The State Auditor's Office did not analyze the University records necessary to verify that estimate; however, the methodology that the System and its consultant asserted they used to estimate that amount was reasonable.

- Approximately $7.9 million was related to potential excess benefit payments resulting from expenditure transfers. The State Auditor's Office's analysis indicates that those expenditure transfers also may have been included in the calculation discussed above for the excess payment for benefits resulting from salary and wage expenses that exceeded legislative appropriations.

The University had a long-standing practice of receiving excess state-funded benefits.

Documentation indicated that the University had been engaged in the practice described above since at least 2000. However, based on interviews with former University employees, that practice may have originated as far back as the 1970s and then became institutionalized over the years. Auditors were unable to determine precisely when the practice began or its original intent.

Information in USAS indicated that the University made cash refunds from its local funds to the General Revenue Fund totaling $315,925,274 between 2004 and 2012. Emails among University staff indicated that staff initiated those transactions when the University had exhausted its legislative appropriations available to process additional salaries and wages. The refunds decreased the amount of salary expenditures recorded in USAS for the General Revenue Fund. That enabled the University to pass additional salary expenditures through the General Revenue Fund and exceed its legislative appropriations to receive the state match associated with those salary expenditures.

Receiving excess state-funded benefits involved a coordinated effort at the University.

At a minimum, the refunds discussed above involved University personnel from the budget, accounting, purchasing and payment, and payroll offices. Those personnel tracked available appropriations, maintained spreadsheets to track cash refunds to the General Revenue Fund, determined which payroll accounts to credit, processed and approved transactions, and served as check signatories. The University's budget office generally initiated the refund requests, which were approved by the vice president of finance and controller or the associate senior vice president for finance. Auditors did not identify any attempt by the

University to conceal its activities or transactions. However, University senior managers with fiscal responsibility should have known, or did know, that the University consistently exceeded its legislative appropriations.

State processes did not prevent, or detect and correct, the University's practice.

State entities are required to submit a *Benefits Proportional by Fund Report* to the Comptroller's Office each November. That report determines whether benefit expenses should be reallocated among different funds, such as General Revenue, Dedicated General Revenue, federal funds, or other appropriated funds. The report compares actual benefits paid by certain funding sources to the total amount appropriated for each of those funding sources to determine proportionality by fund. However, it does not calculate the ratio between the salaries and benefits paid by fund. In addition, amounts related to institutional funds are excluded from the report. (See text box for additional information regarding proportionality requirements.)

Proportionality Requirements

The General Appropriations Act (82nd Legislature), page IX-28, Section 6.08, required state entities to:

- Maximize balances in the General Revenue Fund by paying benefits proportional to the source of funds, unless otherwise provided.
- Refrain from using General Revenue funds to pay for benefit costs associated with salaries and wages paid from any source other than General Revenue.
- Submit *Benefits Proportional by Fund Reports* demonstrating proportionality by November 19 for the preceding appropriation year.

The State Auditor's Office periodically audits state entities' compliance with the reporting requirements of the Comptroller Office's Accounting Policy Statement 011 related to benefits proportional by fund. Those audits generally focus on whether state entities complied with report submission requirements, and the State Auditor's Office tests the accuracy of those reports for a limited number of entities. Although the State Auditor's Office has not specifically audited the University's benefits proportional reports, its tests likely would not have detected the University's practice.

The State Auditor's Office Performed This Project as an Investigation

This project was an investigation; therefore, the information in this report was not subjected to all the tests and confirmations that would be performed in an audit. However, the information in this report was subject to certain quality control procedures to help ensure accuracy.

The Comptroller's Office assigns appropriation control officers to monitor state entities' legislative appropriations and cash activity for compliance with legislative requirements. However, the appropriations control officers assigned to monitor the University's appropriations did not prevent, or detect and correct, the University's practice. The Comptroller's Office has informed the State Auditor's Office that it is in the process of strengthening controls related to the proportionality of state-paid benefits.

Indirect appropriations that are not made directly to a state entity in its portion of the General Appropriations Act are not subject to the same appropriation balance controls as direct appropriations. Indirect appropriations include the state match for employer-paid benefits that include estimated appropriations made to the Teacher Retirement System, the Employees Retirement System, and the Comptroller's Office.

The System's investigation is ongoing.

The System's investigation of financial transactions and controls at the University is ongoing. The State Auditor's Office will continue to monitor that investigation.

Recommendation

The State Auditor's Office recommends that the 84th Legislature require the University to reimburse at least $75.6 million[1] to the State's General Revenue Fund during the next 10 years.

Sincerely,

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State Auditor

cc: The Honorable Rick Perry, Governor
The Honorable Susan Combs, Comptroller of Public Accounts
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[1] That amount excludes the $7.9 million related to potential excess benefit payments resulting from expenditure transfers discussed on page 2.