

Benefits Proportionality of Funds

Financial and Administrative Services

August 2020



**The University of Texas at Austin
Office of Internal Audits
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OFFICE OF INTERNAL AUDITS
THE UNIVERSITY OF TEXAS AT AUSTIN

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August 31, 2020

Interim President Jay C. Hartzell
The University of Texas at Austin
Office of the President
P.O. Box T
Austin, Texas 78713

Dear Interim President Hartzell,

We have completed our audit of Benefits Proportionality for fiscal years 2018 and 2019, for the University of Texas at Austin (UT Austin) as required by Rider 8, page III-48 of the General Appropriations Act (86th Texas Legislature). The rider requires that this audit examine fiscal years 2017 through 2019; however, an audit of fiscal year 2017 was completed as part of the previous Benefits Proportionality engagement (Project #18.019) issued August 30, 2018.

The objective of the audit was to ensure benefits by fund were paid proportionally and applied according to the established guidelines set forth in the General Appropriations Act. Funding being audited was appropriated for the 2018-2019 biennium; therefore, governing guidelines are established in Article IX, Section 6.08 of the General Appropriations Act, for the 2018-2019 biennium (85th Texas Legislature). The report is attached for your review.

Overall, the Benefits Proportionality by Method of Finance reports (APS 011) for fiscal years 2018 and 2019 are materially accurate, and there were no inappropriate adjustments or deposits to general revenue. However, general revenue was allocated to an auxiliary enterprise and used for employee salaries, resulting in excess general revenue from state-paid benefits.

Please let me know if you have questions or comments regarding this audit.

Sincerely,

A handwritten signature in blue ink that reads "Sandy Jansen".

Sandy Jansen, CIA, CCSA, CRMA
Chief Audit Executive

cc: Mr. Darrell Bazzell, Senior Vice President and Chief Financial Officer
Mr. Jay Dyer, Deputy to the President for Governmental Relations
Mr. Carlos Martinez, Chief of Staff, Office of the President
Ms. Lori Peterson, Executive Director of Accounting & Financial Management
Ms. Amy Reyna, Assistant to Senior Vice President and Chief Financial Office
Ms. Tara Trower, Chief of Staff, Financial and Administrative Services
Legislative Budget Board
State Auditor's Office
Texas Comptroller of Public Accounts



OFFICE OF INTERNAL AUDITS REPORT: BENEFITS PROPORTIONALITY

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Executive Summary

Benefits Proportionality Financial and Administrative Services Project Number: 20.015

Audit Objective

The objective of this audit was to determine whether benefits by fund were paid proportionally and applied according to the established guidelines set forth in Article IX, Section 6.08 of the General Appropriations Act, for the 2018-2019 biennium (85th Texas Legislature).

Conclusion

Overall, the Benefits Proportional by Method of Finance reports are materially accurate; however, general revenue was allocated to an auxiliary enterprise, resulting in excess general revenue.

Audit Observation¹

Recommendation	Risk Level	Estimated Implementation Date
Reimburse excess general revenue to the Comptroller of Public Accounts.	Medium	February 2021

Engagement Team

Patrick McKinney, CIA, Assistant Director
Kiersten Mercado, Auditor III
Ramiro Muñoz, Auditor I

¹ Each observation has been ranked according to The University of Texas System Administration (UT System) Audit Risk Ranking guidelines. Please see the last page of the report for ranking definitions.



Audit Results

Overall, Benefits Proportionality by Method of Finance reports (APS 011) are materially accurate, and there were no inappropriate adjustments or deposits to general revenue. However, general revenue was allocated to an auxiliary enterprise and spent on employee salaries, resulting in excess general revenue through state-funded employee benefits.

Observation #1 Excess General Revenue

In fiscal years 2017 and 2018, the Frank C. Erwin, Jr. Special Events Center (Erwin Center) received approximately \$690,000 annually in appropriated general revenue. The Erwin Center primarily used these funds to support classified salaries, including facilities-related personnel. This allowed them to utilize state-paid fringes.

UT Austin classifies the Erwin Center as an auxiliary enterprise, and the facility does not have any allocated educational and general space. Article III of the General Appropriations Act for the 2018-2019 biennium states, "No educational and general funds appropriated to any institution or agency named in this article may be expended on auxiliary enterprises, unless specifically authorized in this Act." The Texas Comptroller of Public Accounts provides a similar provision on its website and states, "an institution of higher education may purchase goods and services from its auxiliary enterprises...only if the institution treats the enterprises as it would any independent vendor or provider of goods and services."

UT Austin centrally funds a small portion of Erwin Center funding, including a waiver of the auxiliary enterprise administration fee, so that the campus community has access the facility to host academic and education-related events (e.g., graduations and career fairs). Under this arrangement, official UT Austin events are hosted at no charge, other than costs for consumable materials and supplies. Beginning in fiscal year 2019, UT Austin updated the funding methodology and no longer allocates appropriated funds to the Erwin Center.

The Erwin Center maintains daily usage data and prepares an annual report to show the number of days used for academic, athletic, and auxiliary purposes. Academic and educational events comprised approximately 20 percent of the Erwin Center's total use for fiscal year 2018, whereas income from state appropriations was approximately three percent of total income (See Appendix A) during this period. The amount of appropriations allocated to the Erwin Center appear reasonable and supported by academic and educational event usage. However, the funding method did not comply with the General Appropriations Act. As a result, UT Austin received excess general revenue through state-paid employee benefits.

In total, the Erwin Center paid salaries with general revenue totaling \$656,006 and \$1,174,663 in fiscal years 2017 and 2018, respectively. Excess general revenue during the scope period totaled \$819,017, including \$284,950 in 2017, \$456,037 in 2018, and \$78,030 for related retiree premium sharing in 2019 (See Appendix B).

It should be noted that UT Austin has allocated general revenue to the Erwin Center for several years, potentially beginning around 2000. This audit did not determine the value of general



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revenue allocated to the Erwin Center, or potential excess revenue received, outside of the scope period required by the General Appropriations Act for the 2020-2021 biennium (86th Texas Legislature).

Recommendation: Financial and Administrative Services should facilitate the refund from UT Austin to the Comptroller of Public Accounts (CPA) for excess revenues received during fiscal years 2017 through 2019, as required by the General Appropriations Act, and work with the CPA to determine whether potential excess revenues received prior to fiscal year 2017 should be corrected and reimbursed.

Additionally, Financial and Administrative Services should ensure identified ineligible retiree-premium sharing is not paid from general revenue going forward.

Management's Response: Financial and Administrative Services will facilitate the refund of excess revenues in coordination with the Comptroller of Public Accounts (CPA) for the years covered by the audit and will seek instruction on recommendations for years prior to 2017.

Identified ineligible retiree premium sharing charges were removed from Educational and General, general revenue supported accounts.

Responsible Person: Director III, Treasury, Risk and Payment Information Services

Planned Implementation Date: The retiree changes have already been implemented. Refunds to be implemented by February 2021.



Background

Rider 8, page III-48 of the General Appropriations Act (86th Texas Legislature) requires higher education institutions, excluding public community/junior colleges, to conduct an internal audit of benefits proportional by fund. The audit must examine fiscal years 2017 through 2019 and be conducted using methodology approved by the State Auditor's Office. UT Austin previously audited fiscal year 2017 and included it in the audit submitted to the State Auditor's Office in fiscal year 2018.

The State Auditor's Office outlines the following areas, at minimum, to ensure compliance:

- Auditing compliance with applicable requirements prescribed by Section 6.08, page IX-27, the General Appropriations Act (86th Legislature).
- Auditing the accuracy of the report demonstrating proportionality required by Section 6.08(g).
- Disclosing in the audit report (a) the aggregate dollar amount of all instances of noncompliance with the proportionality requirements identified during the audit, regardless of materiality, and (b) the status of any resulting reimbursement payments to the Comptroller of Public Accounts.

Scope, Objectives, and Methodology

The scope of this review includes fiscal years 2018 and 2019. Because fiscal year 2017 had been included in a prior audit, the original scope of this engagement included fiscal years 2018 and 2019. However, we added fiscal year 2017 Erwin Center expenditures to the scope after discovery of UT Austin's funding methodology and use of general revenue to support the Erwin Center. No other fiscal year 2017 expenditures were reviewed during this engagement.

The audit objective is to determine whether benefits by fund were paid proportionately and applied according to the established guidelines set forth in Article IX, Section 6.08 of the General Appropriations Act, for the 2018-2019 biennium (85th Texas Legislature).

To achieve this objective, the Office of Internal Audits:

- Reviewed source information obtained from the internal accounting system and the State's Uniform Statewide Accounting System (USAS),
- Gained an understanding of the benefits proportionality reporting process from the report owner,
- Verified the accuracy of information and proportional funding calculations reported to the State Comptroller on the APS 011 reports, and
- Performed testing to verify eligibility of employee benefits paid with appropriated funds.

Our audit procedures were consistent with the methodology prescribed by the State Auditor's Office.



Observation Risk Ranking

Audit observations are ranked according to the following definitions, consistent with UT System Audit Office guidance.

Risk Level	Definition
Priority	If not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of The University of Texas at Austin (UT Austin) or the UT System as a whole.
High	Considered to have a medium to high probability of adverse effects to UT Austin either as a whole or to a significant college/school/unit level.
Medium	Considered to have a low to medium probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.
Low	Considered to have minimal probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.

In accordance with directives from UT System Board of Regents, Internal Audits will perform follow-up procedures to confirm that audit recommendations have been implemented.

Report Distribution

The University of Texas at Austin Institutional Audit Committee

- Mr. Darrell Bazzell, Senior Vice President and Chief Financial Officer
- Mr. Cameron Beasley, Chief Information Security Officer
- Mr. James Davis, Vice President for Legal Affairs
- Mr. Jeffery Graves, Interim Chief Compliance Officer, University Compliance Services
- Dr. Jay C. Hartzell, Interim President
- Dr. Daniel Jaffe, Interim Executive Vice President and Provost
- Dr. John Medellin, External Member
- Mr. J. Michael Peppers, CAE, The University of Texas System Audit Office
- Dr. Alison Preston, Interim Vice President for Research
- Ms. Christine Plonsky, Chief of Staff/Executive Sr. Associate Athletics Director
- Dr. Soncia Reagins-Lilly, Vice President for Student Affairs and Dean of Students
- Ms. Susan Whittaker, External Member
- Ms. Elizabeth Yant, External Member, Chair

- The University of Texas System Audit Office
- Legislative Budget Board
- Governor’s Office
- State Auditor’s Office
- Texas Comptroller of Public Accounts



Appendix A

Frank Erwin Center 2017-2018 Use Days by Category *Academic and Athletic Events*

<u>Total Use</u>	<u>Days</u>	<u>Sessions</u>
Academic	28	35
Athletic	66	81
Auxiliary	46	63
Practice	57	62
Totals:	197	241
Total other than practices:	140	179
 <u>Percentages:</u>		
Academic, as a percentage of total events	14%	15%
Academic, as a percentage of total events other than practices	20%	20%

Source: Facility Usage Data Report provided by the Erwin Center

Frank Erwin Center Financial Trend *Education & General (E&G) Funds Compared to Total*

<u>Education & General Funds</u>	<u>2016-2017</u>	<u>2017-2018</u>
Appropriated Budget	690,702	691,759
Budget Adjustment	26,957	40,799
Salary Expenditures	(628,265)	(1,148,977)
Total Expenditures	(681,805)	(1,222,445)
 <u>Total Erwin Center Activity</u>		
Appropriated Budget	690,702	691,759
Budget Adjustment	26,957	40,799
Income	25,976,255	27,196,402
Expenditures	(25,963,709)	(25,777,690)
 <u>E&G activity as a percentage of Erwin Center Totals</u>		
Income	2.7%	2.6%
Expenditures	2.6%	4.7%

Source: Cognos data

2017-2018 Summary *Academic Use Compared to Financial Activity*

Academic use as a percentage of total days other than practice	20.0%
Average E&G income as a percentage of total	2.7%
Average E&G expenditures as a percentage of total	3.7%



Appendix B

Appropriated Funds at the Erwin Center

	2017	2018	2019*	Total
Employees paid from General Revenue	45	45	0	
Total salaries paid**	\$656,006	\$1,174,663	\$0	\$1,830,669
Total fringe benefits paid	\$314,617	\$511,971	\$83,737	\$910,325
Total fringe benefits from General Revenue	\$284,950	\$456,037	\$78,030	\$819,017
Refund due to Comptroller	\$284,950	\$456,037	\$78,030	\$819,017

*Fiscal year 2019 includes Retiree Premium Sharing, which is a lagging fringe paid from central sources when related salaries were paid from educational and general accounts prior to retirement. These amounts are included in 2019 although no salaries were paid for the fiscal year.