

Fiscal Management Division
Expenditure Audit Section
Auditor: Ben Strauser

Audit Report # 221-14-01
July 28, 2014

Post-Payment Audit of First Court of Appeals



Susan Combs
Texas Comptroller of Public Accounts

Table of Contents

Executive Summary

Audit scope	i
Payroll transactions and deductions.....	i
Purchase transactions.....	i
Travel transactions	ii
Security	ii
Internal control structure	ii
Prior post-payment audit and current audit recurring errors	ii

Detailed Findings — Purchase

Invalid Payment	1
Excessive Employee Awards.....	2
Missing Purchase Order	3
Payment in Excess of Purchase Order	4

Detailed Findings — Expenditure Approvals

Employee Retained Ability and Security to Expend Funds After Termination/Authority Expired	5
Control Weakness Over Expenditure Processing	6

EXECUTIVE SUMMARY

Audit scope

We audited a sample of the First Court of Appeals (Court) payroll, purchase and travel transactions that processed through the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS) during the period beginning March 1, 2013, through Feb. 28, 2014, to determine compliance with applicable state laws.

The Court received appendices with the full report that included a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

The audit provides a reasonable basis for the findings set forth in this report. The Court should implement the recommendations listed in the Detailed Findings of this report. It is the Court's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Texas Comptroller of Public Accounts (Comptroller's office) may take the actions set forth in Texas Government Code Annotated, Section 403.071(h) (Vernon 2013), to ensure that the Court's documents comply in the future. The Court must ensure that the findings discussed in this report are resolved.

Texas law requires the Comptroller's office to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

Payroll transactions and deductions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), [Texas Payroll/Personnel Resource](#) and other applicable statutes.

- No issues were identified.

Purchase transactions

Purchase transactions were audited for compliance with the GAA, [eXpendit](#), the [State of Texas Procurement Manual](#) and other pertinent statutes.

The audit identified:

- One invalid payment.
- Excessive employee awards.
- Four payments missing a purchase order.
- Two payments in excess of the purchase order.

Travel transactions

Travel transactions were audited for compliance with the GAA, [Texttravel](#) and other pertinent statutes.

- No issues were identified.

Security

The audit included a security review to identify any of the Court's employees with security in USAS, USPS or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner.

The audit identified:

- Two employees who retained the ability to expend funds after authority expired.
- Two employees who retained the security to expend funds after termination.

Internal control structure

The Court's internal control structure was reviewed. The review was limited to obtaining an understanding of the Court's controls sufficient to plan the audit and did not include tests of control policies and procedures.

The audit identified:

- One employee who could adjust payment instructions in the Texas Identification Number System (TINS) and approve paper vouchers without oversight.
- Two employees who could process and release payments through USAS and process and release payrolls without oversight.
- Three employees who could pick up warrants from the Comptroller's office and approve paper vouchers without oversight.

Prior post-payment audit and current audit recurring errors

A prior post-payment audit of the Court's payroll, purchase and travel transactions was concluded on March 21, 2011.

During the current audit, there was one recurring error:

- Control weakness over expenditure processing.

Contact:

Ben Strauser, MBA, CTP
(512) 463-9019

Contributing Auditor:

Valerie Davis, MBA, CTPM, CTCM

DETAILED FINDINGS — PURCHASE

Invalid Payment

Finding

We identified one payment to a vendor with no valid contract in place. The Court previously had a contract with a vendor but chose not to renew. However, the Court made an additional payment to the vendor after the expiration of the contract even though the Court had not renewed the contract nor received any services. During the fieldwork portion of the audit, the Court contacted the vendor and found that it had a credit with the vendor. The Court requested and received a refund of this credit balance.

The Court's procedures require that an invoice review be conducted prior to payment. According to the Court, this invalid payment occurred because the invoice review process was not followed in this instance.

Recommendation/Requirement

The Court must improve its invoice review process to ensure that it has a valid contract before processing a payment.

Court Response

The Court has received the refund and correctly processed a refund of expenditure. The accounting department of the Court experienced employee turnover during the audit period. In the future, the Court will ensure a valid contract is in place before processing a payment.

Excessive Employee Awards

Finding

We identified one purchase document where the Court exceeded the allowable amount set for employee awards. The Court ordered multiple clothing items for 11 of its employees. The Court thought it could order multiple clothing items for each employee as long as each individual item did not exceed the allowable amount. This resulted in all 11 employees receiving multiple items whose combined cost exceeded the statutory limit set for employee awards.

A state agency may use appropriated money to purchase service awards, safety awards or other similar awards to present to its employees for professional achievement or outstanding service. The agency must adopt policies governing the awards and the awards may be given only to current employees. The awards may not cost more than \$100 for an individual employee. See [eXpendit — Employee Awards](#).

Recommendation/Requirement

The Court must ensure that the amount paid for employee awards does not exceed the set limit per employee.

Court Response

The Court thought that it could order multiple clothing items for each employee as long as each individual item did not exceed the allowable amount. The individual responsible for these duties has reviewed the eXpendit section on Employee Awards and will ensure that no employee receives an award in excess of the allowable amount.

Missing Purchase Order

Finding

We identified four transactions not supported by a purchase order (PO). Without a PO, it becomes difficult for the Court to ensure that it was not overcharged or billed for goods or services beyond those the Court had agreed to purchase.

The Court's procedures require the creation of a purchase order prior to obtaining goods and services, but it did not follow these procedures in these instances. The accounting department of the Court experienced employee turnover during the audit period. As a result, the Court was not able to find all the documentation that was maintained by the previous staff members.

According to 34 Texas Administrative Code Section 5.51(c) (1) (D)(2013), it is the general responsibility of a state agency and its employees to "ensure for each purchase document the agency maintains necessary documentation for proving that each payment resulting from the document is legal, proper, and fiscally responsible."

Recommendation/Requirement

The Court must ensure that documentation of the agreement is prepared at the time the goods or services are ordered from the vendor. Once the Court has made a final approved agreement with the vendor, the Court may not pay any amount in excess of the agreed upon amount unless the agreement is amended due to the vendor providing a new benefit, i.e., consideration, to the Court.

Court Response

The accounting department of the Court experienced employee turnover during the audit period. The Court will take all steps to ensure POs are created in the appropriate manner.

Payment in Excess of Purchase Order

Finding

We identified two transactions where the Court paid more than the authorized amount on the PO. The Court explained that the payments were an oversight.

A PO is a contract entered into between the Court and the vendor. When the Court enters into a contract for goods or services with the vendor, expenditures under the contract may not exceed the established limit. The Court may amend a contract and pay additional amounts only if the vendor provides an additional benefit, i.e., consideration, to the Court. Any amendments to the original agreement should be documented.

When the Court and a vendor agree to a certain rate or quantity, unless the PO is properly amended due to the vendor providing additional consideration, any amount above that rate or quantity may not be paid. In addition, any amendments must be completed prior to the vendor providing goods or services.

Recommendation/Requirement

The Court must properly review and compare the invoices to the contract to ensure that the payments do not exceed the amounts authorized in the PO, and the Court must document any amendments to the original contract.

Court Response

The Court will properly review and compare the invoices to the contract to ensure that the payments do not exceed the amounts authorized in the PO and will document any amendments to the original contract.

DETAILED FINDINGS — EXPENDITURE APPROVALS

Employee Retained Ability and Security to Expend Funds After Termination/Authority Expired

Finding

During the audit period, the Court failed to notify the Comptroller's office about the termination of two employees who had been designated by the Court to approve its expenditures. The employees remained listed on the Court's voucher signature cards for 24 and 8 days, respectively, after termination. This means that the former employees could have approved paper vouchers that were submitted to the Comptroller's office on paper during that time. Any payment produced by a paper voucher that was approved by the terminated employees would have constituted an unapproved expenditure. In addition, both of these employees retained their USAS and USPS security for 24 and 8 days, respectively, after termination, allowing the employees to approve electronic vouchers during that time. According to the Court, the employees remained on the signature card and USAS and USPS security due to an oversight.

Whenever a designated employee terminates employment with an agency, the Comptroller's office must receive notification of the employee's termination no later than the fifth day after the effective date of the employee's termination. See 34 Texas Administrative Code, Section 5.61 (2013). Any officer or employee may send the Comptroller's office that notification. See Section 5.61(k)(3)(B). Additionally, Section 5.61 does not specify how the Comptroller's office is to be notified about designated employees' terminations. Therefore, the Comptroller's office will accept emails, faxes, letters, memos or other writings as long as the writings indicate that a designated employee has terminated employment and the notification specifies the effective date of the employee's termination.

When an employee's authority to approve an agency's expenditures is revoked for any reason, the employee's security profile must be changed no later than the effective date of the revocation or termination to prevent the employee from executing electronic approvals for the agency. See 34 Texas Administrative Code, Sections 5.61 (k)(5)(A)-(B) (2013).

Recommendation/Requirement

The Court must ensure compliance with the preceding requirements. It must also ensure that the person responsible for sending these notifications to the Comptroller's office is aware of the designated employee's termination on or before the date the termination becomes effective. The Court also must ensure the responsible person follows through with the Comptroller's office to ensure receipt of the notification and that the revocation occurred.

Court Response

The accounting department of the Court experienced employee turnover during the audit period. The Court will take all steps to ensure employee terminations with access are communicated and the appropriate verifications are made according to 34 TAC 5.61.

Control Weakness Over Expenditure Processing

Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations that the Court placed on its accounting staff members' abilities to process expenditures. We reviewed the Court's security in USAS, USPS and TINS and its voucher signature cards that were in effect on March 22, 2014. We did not review or test any internal or compensating controls that the Court may have relating to USAS, USPS or TINS security or internal transaction approvals.

We found one employee who could adjust payment instructions in TINS and approve paper vouchers without oversight. Two employees could process and release payments through USAS and process and release payrolls without oversight. Three employees could pick up warrants from the Comptroller's office and approve paper vouchers without oversight.

To reduce risks to state funds, agencies should have controls over expenditure processing that segregates each accounting task to the greatest extent practical. Ideally, no individual should be able to enter or alter, then release, payments or other accounting transactions within the statewide financial systems without another person's involvement.

Recommendation/Requirement

The Court should review the controls over expenditure processing and segregate each task to the extent possible to ensure that no individual is able to process payments without oversight.

The Court should request that a preventative control be enforced for all of its transactions in USAS. If an agency requests the control, an edit will prevent the release of a document that the same user entered or altered. See [USAS Accounting and Payment Control \(FPP B.005\)](#), which explains how agencies can reduce the risks to state funds.

Court Response

The Court will review the controls over expenditure processing and segregate each task to the extent possible to ensure that no individual is able to process payments without oversight.

The Court will request that a preventative warning be enforced for all of its transactions in USAS.