

Fiscal Management Division
Expenditure Audit Section
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Post-Payment Audit of the Second Court of Appeals



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EXECUTIVE SUMMARY

Audit scope

We audited a sample of the Second 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 Dec. 1, 2012, through Nov. 30, 2013, to determine compliance with applicable state laws.

The Court received appendices with its 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), the [Texas Payroll/Personnel Resource](#) and other pertinent statutes.

The audit identified:

- Incorrect payment of longevity pay for one employee.

A limited sample of voluntary contributions was also audited.

- 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 transaction missing the purchase order.
- That the Court did not file the annual procurement plan with Texas Procurement and Support Services (TPASS).

Travel transactions

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

The audit identified:

- One issue pertaining to conservation of state funds.
- One transaction that reimbursed an employee for meals not payable.

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 review identified:

- One employee who remained listed on the Court's voucher signature cards after termination and kept security in USAS after authority expired.

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:

- Two employees who had the ability to:
 - Process and release payments through USAS,
 - Adjust payment instructions in the Texas Identification Number System (TINS) and approve paper vouchers, and
 - Process and release payrolls.
- One employee who had the ability to adjust payment instructions in TINS and approve paper vouchers.

Internal rules for making equity adjustments

According to the GAA, Article IX, Section 3.07(d), a state agency shall adopt internal written rules relating to making equity adjustments. We noted that that the Court currently does not have internal written rules for processing equity pay adjustments as required.

Fixed assets

The audit included a limited review of fixed assets acquired by expenditures during the audit period to test for accurate reporting in the State Property Accounting (SPA) System and to verify existence of the assets.

- All assets tested were in their intended location and properly recorded in SPA.

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 May 4, 2011.

During the current audit, the following recurring error was identified:

- Control weakness over expenditure processing.

In prior audits, the Court acknowledged that in a small agency it is often challenging to have the staff available to maintain a complete separation of duties at all times.

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DETAILED FINDINGS — PAYROLL

Incorrect Payment of Longevity Pay

Finding

We identified one employee that noted prior state service on the job application but was not given credit for this time in USPS. As result of the audit, this additional prior state service time was verified by the Court.

The Court's procedures include obtaining prior state service verifications whenever the employee indicates previous state employment on the Court's internal form. In this instance, the employee did not note previous state employment on the Court's internal form but did note the information on the application. The additional service time resulted in an underpayment amount of \$240 in longevity pay.

When an agency hires an employee, the agency must research if the employee has previous state employment. If there is prior state employment, the agency must confirm the amount of lifetime service credit or run the risk of underpaying longevity pay.

See [Texas Payroll/Personnel Resource – Longevity Pay](#).

The Court stated the missing prior state verification was due to oversight during the hiring process. We provided the Court with the schedule and calculations of the underpayments during fieldwork. The schedule and calculations are not included with this report due to confidentiality issues.

Recommendation/Requirement

The Court should review each employee's job application and/or resume for prior state service for all current and new employees. In addition, the Court must compensate the employee that was underpaid longevity pay in accordance with the 34 Texas Administrative Code, Section 5.40(c).

Court Response

The Court will more closely examine applications to ensure all employees' prior state service is considered, including any prior state service where a new employee worked as a student. The Court will also take the proper measures to ask orally whether the employee had any prior state service while enrolled in college or elsewhere. Additionally, the audit finding has since been corrected, and the employee has been paid appropriately.

DETAILED FINDINGS — PURCHASE

Missing Purchase Order

Finding

During our audit of purchase transactions, we identified one transaction 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 creation of a PO prior to obtaining goods and services, but in this instance it did not follow these procedures.

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 of ordering the goods or services 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 Court will continue to prepare purchase orders at the time of order from the vendor, however the goods or services will not be formally ordered without the Clerk's signed approval. In order to reduce the possibility of future errors, the Court has added an additional signature line on the purchase order for approval by both the accountant and the Clerk of the Court.

Missing Procurement Plan

Finding

TPASS requires each agency to formulate an agency procurement plan that identifies the agency's management controls and purchasing oversight authority. A procurement plan must be on file at TPASS and updates must be submitted as necessary. If the plan has no updates in a fiscal year, a letter must be sent to indicate "no changes." Procurement plan submittals or "no change" letters are due to TPASS by Nov. 30 each year.

The Court stated that it had prepared the procurement plan but that it was never signed by the Chief Justice, and therefore never submitted to TPASS as required.

See the [*State of Texas Procurement Manual – Section 1.3*](#).

Recommendation/Requirement

The Court must submit its procurement plan to TPASS by Nov. 30 each year.

Court Response

In the future, the Court will take the necessary steps to ensure this report is completed timely, and all signatures have been received. The Court will submit the procurement plan by the applicable deadline in 2014.

DETAILED FINDINGS — TRAVEL

Meals and/or Lodging Not Payable

Finding

We identified one travel voucher that reimbursed a traveler for the meal expenses of another traveler.

A state employee may only be reimbursed for his or her actual meal expenses not to exceed the maximum meal reimbursement for that location. See [Texttravel – Meal Reimbursements](#).

According to the Court, it was an oversight.

Recommendation/Requirement

The Court must ensure that all travel reimbursements are properly reviewed at the time of payment to ensure compliance with all applicable regulations and limitations. The Court must obtain a reimbursement from the traveling employee unless it determines it is not cost effective to do so.

Court Response

The Court will more closely examine all travel expenditures to reduce the likelihood of this type of oversight occurring again in the future. The Court will further inform all Court employees by sending an email reminder in regard to the policy at the beginning of each fiscal year. In this particular audited situation, it was not cost effective to obtain reimbursement from the individual as the employee whose meal was paid for is also an employee of the Court. Therefore, the Court would have then had to reimburse the secondary employee involved.

Lack of Conservation of State Funds

Finding

We identified one instance where the Court paid an excessive amount for auto rental fees. A Court employee rented a sport utility vehicle although she traveled alone, and she rented it from a non-contract vendor and was charged a higher daily rate. The Court stated that rental car companies are not frequently used and that at times employees make their own rental reservations. The excessive payment in this instance was an oversight.

According to Texas Government Code Annotated, Section 660.007(a) (Vernon 2012), a state agency shall minimize the amount of travel expenses paid or reimbursed by the agency. The agency shall ensure that each travel arrangement is the most cost effective considering all relevant circumstances.

Recommendation/Requirement

Prior to authorizing the travel, the Court must closely review the traveler's request to ensure compliance with the above travel regulations and ensure that only eligible expenses are reimbursed to employees. The Court must seek a reimbursement from the employee unless it determines it is not cost effective to do so. The Court should consider providing travel training for its employees that travel.

Court Response

In the future, the Court will require auto rentals to be approved in advance. Once the Court specifies where the employee is traveling, and determines if mileage is needed, the Court will then conduct a brief analysis to determine if it is more cost effective to rent a car through the state of Texas rental car program, or if the employee should drive their individual vehicle and request reimbursement for mileage. At this time, it would not be cost effective to seek reimbursement from the employee.

DETAILED FINDINGS — EXPENDITURE APPROVALS

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 Jan. 21, 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.

Two employees had the ability to:

- Process and release payments through USAS,
- Process and release payrolls and
- Adjust payment instructions in TINS and approve paper vouchers.

Another employee also had the ability to adjust payment instructions in TINS and approve paper vouchers.

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

We ran a report to determine whether any of the Court's payment documents processed through USAS and USPS during the audit period because of the action of only one individual. The report indicated that 242 USAS documents totaling \$103,502.34 and 14 USPS documents totaling \$3,484,466.63 were processed without electronic oversight. We reviewed a sample of these documents and determined they were valid.

In prior audits, the Court acknowledged that, in a small agency, it is often challenging to have the staff available to maintain a complete separation of duties at all times.

Recommendation/Requirement

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

[*USAS Accounting and Payment Control \(FPP B.005\)*](#) discusses the tools available in USAS that agencies can use to strengthen internal controls and reduce risks to state funds.

The Court may request that a preventative control be enforced for all of their 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, or warn when this is about to occur.

Court Response

The Court's administrative staff is quite small as compared to other state agencies. Therefore, the ability for two employees to process and approve payments was due to an administrative staff member's departure from the agency. At the time of the audit, all controls had already been properly restored so that the employee who has access to enter/process vouchers does not also have access to approve payments in the system. In order to lessen the risk of future reoccurrences, the Court has given access of processing and approving vouchers payable only to the Clerk of the Court, while other administrative staff will only have access to process/enter.

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 one employee who had been designated by the Court to approve its expenditures. The employee remained listed on the Court's voucher signature cards for eight days after termination. This means that the former employee 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 employee would have constituted an unapproved expenditure.

The employee also maintained USAS security for eight days after termination, allowing the employee the ability to approve electronic vouchers during that time. According to the Court, the employee remained on the signature card and USAS 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. Any officer or employee may send the Comptroller's office that notification. See 34 Texas Administrative Code, 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 not 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 the termination notifications to the Comptroller's office:

- Is aware of the designated employee's termination on or before the date the termination becomes effective
- Follows through with the Comptroller's office to ensure receipt of the notification and
- Ensures that the revocation occurred.

Court Response

In the future, the Court will remove an employee's security 48 hours prior to the employee's last physical employment date. By removing the employee early, this will encourage the employee to complete any final processing of documents in a timely manner, and will also allow adequate time to complete the required signature card, and remove security not later than the effective date of termination. This requirement has also been added to the agency's employee termination checklist to remind the person responsible for sending these notifications that he or she must send the required notices of termination to the Comptroller's office no later than the effective date of termination.