

Fiscal Management Division
Expenditure Audit Section
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Post-Payment Audit of Department of Banking



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EXECUTIVE SUMMARY

Audit scope

We audited a sample of the Department of Banking (Department) 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 Sept. 1, 2012, through Aug. 31, 2013, to determine compliance with applicable state laws.

The Department was given self-directed, semi-independent status by House Bill 2774 during the 81st Legislative Session. The Department approves its own budget and retains and manages much of its fee revenue rather than being included under the General Appropriations Act (GAA). Our audit procedures were conducted uniformly as with other state agencies, reflecting the Department's operation as a state agency.

The Department 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. 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 Department's documents comply in the future. The Department 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 [Texas Payroll/Personnel Resource](#), the GAA and other pertinent statutes.

- No issues were identified.

Some of the Department's voluntary contributions were 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.

- No issues were identified.

Travel transactions

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

- No issues were identified.

Fixed assets

The audit included a review of a limited sample 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, location and proper reporting of the fixed assets.

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

The disposed assets report listed one asset as stolen with a net book value of \$580.04. The theft of the asset was supported by a police report.

Security

The audit included a security review to identify any of the Department'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 retained the ability to expend funds after authority expired.

Internal control structure

As part of our planning process for the post-payment audit, we reviewed certain limitations that the Department placed on its accounting staff members' abilities to process expenditures. We reviewed the Department's security in USAS, USPS, the Texas Identification Number System (TINS) and voucher signature cards that were in effect on Oct. 3, 2013. The review was limited to obtaining an understanding of the Department's controls sufficient to plan the audit and did not include tests of control policies and procedures.

The audit identified two employees who could:

- Process and release payments through USAS without oversight.
- Adjust payment instructions in TINS and approve paper vouchers without oversight.
- Process and release payrolls.

Prior post-payment audit and current audit recurring errors

A prior post-payment audit of the Department's payroll, purchase and travel transactions was concluded on July 22, 2010.

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

- Control weakness over expenditure processing.

The Department agreed that it will continue to make every effort to ensure one individual does not process payments without oversight. However, being a small agency, there may be times where only one individual is available to process and release payments. If this occurs, the Director of Administrative Services, the Chief Accountant or the Deputy Commissioner will review transactions the following business day.

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DETAILED FINDINGS — EXPENDITURE APPROVALS

Employee Retained Security to Expend Funds After Authority Expired

Finding

During the audit period, the Department failed to timely submit a request to the Comptroller's office to remove one employee's USAS and USPS security to electronically approve expenditures. The request must be sent on or before the effective date of an employee's termination; in this case, the security request was sent one day late. This permitted the employee to approve any vouchers the Department submitted electronically to the Comptroller through USAS or USPS after the authority expired.

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, Section 5.61(k)(5)(A)-(B) (2013).

The Department has procedures to notify the security coordinator of personnel actions. In this instance, the request to remove the employee's security was delayed because the security coordinator was not informed in a timely manner.

Recommendation/Requirement

The Department must ensure that the person responsible for sending these requests to the Comptroller's office is aware of the designated employee's termination on or before the date the termination becomes effective. The Department must also follow through with the Comptroller's office to ensure:

- Receipt of the request and
- Removal of the employee's security.

Department Response

The agency understands the need to remove terminated employees from the system after the authority to approve agency expenditures expired. The request to revoke the departing employee's authority discussed above and give access to the incoming Chief Accountant and Security Coordinator was submitted on Feb. 26, 2013, by the Director of Administrative Services to security.requests@cpa.state.tx.us. The incoming Chief Accountant's security coordinator access was granted on Friday, Feb. 28, 2013, at 6:51 p.m. and she requested access termination for the departing employee on March 1, 2013, at 9:57 a.m. Access termination was effective on March 1, 2013, at 10:13 a.m.

The agency will seek new security coordinator access earlier in the future to ensure authorizations are revoked timely.

Control Weakness Over Expenditure Processing

Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations that the Department placed on its accounting staff members' abilities to process expenditures. We reviewed the Department's security in USAS, USPS, TINS and voucher signature cards that were in effect on Oct. 3, 2013. We did not review or test any internal or compensating controls that the Department may have relating to USAS, USPS or TINS security or internal transaction approvals.

The Department had two employees with the security to adjust payment instructions in TINS and approve paper vouchers. The same two employees could also process and release payments through USAS without oversight and process and release payrolls. The Department received a schedule of this finding during fieldwork.

We ran a report to determine whether any of the Department's payment documents processed through USAS and USPS during the audit period because of the action of only one person. The report indicated that two USPS documents totaling \$1,507,003.74 were processed without electronic oversight. We reviewed these documents and determined that they were valid.

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 and then release payments or other accounting transactions within the statewide financial systems without another person's involvement.

Recommendation/Requirement

The Department 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 Department should request a preventative control be enforced for all transactions in USAS. If an agency requests the control, an edit prevents the release of a document that the same user entered or altered. See [USAS Accounting and Payment Control \(FPP B.005\)](#) about reducing risks to state funds.

Department Response

The agency agrees and will continue to make every effort to ensure one individual does not process payments without oversight. However, being a small agency, there may be times where only one individual is present and has to process and release payments, thus making the preventability control unfeasible. In the instances discussed above, there were absences within the Accounting section which prevented segregation of duties when the payroll transactions were processed and released. As a remedy to this issue, we will ensure:

- If one individual processes and releases payments, related transaction validity will be reviewed the following working day by the Director of Administrative Services, the Chief Accountant or the Deputy Commissioner.*
- The risky document report, DAFR 9840 will be ordered and reviewed monthly by the Deputy Commissioner.*

The agency continues to reconcile USAS to its internal accounting system monthly and prepare monthly financial statements which are reviewed by the Banking Commissioner, the Deputy Commissioner and Division Directors. These reviews also mitigate the possibility of an improper expenditure being made.