

Fiscal Management Division
Expenditure Audit Section
Auditor: Derik Montique

Audit Report # 231-15-01
December 16, 2015

Post-Payment Audit of the Eleventh Court of Appeals



Glenn Hegar
Texas Comptroller of Public Accounts

Table of Contents

Executive Summary

Audit scope	i
Payroll transactions	i
Purchase transactions	i
Internal control structure	ii
Direct deposit authorization	ii
Prior post-payment audit and current audit recurring findings	ii

Detailed Findings — Payroll

Underpayment of Longevity	1
Underpayment of Salary	2

Detailed Findings — Expenditure Approvals

Control Weakness Over Expenditure Processing	3
--	---

EXECUTIVE SUMMARY

Audit scope

We audited all of the Eleventh Court of Appeals (Court) payroll and purchase transactions that processed through the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS) during the period beginning Dec 1, 2013, through Nov. 30, 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. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), 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 Texas Comptroller of Public Accounts (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

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

The audit identified:

- Underpayment of longevity.
- Underpayment of salary.

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.

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 review identified:

- Two employees who could process and release payroll.
 - One of the two employees could also process and release payments through USAS.

Direct deposit authorization

A review was conducted of the Court's procedures to comply with the federal mandate to properly identify and handle payments involving the movement of funds internationally.

The review identified:

- One transaction where the Court used an outdated version of the direct deposit setup form. The outdated form did not adhere to the rules of electronic payment association NACHA (National Automated Clearing House Association), requiring the identification of a direct payment if it is an international transaction.

Prior post-payment audit and current audit recurring findings

A prior post-payment audit of the Court's payroll transactions was concluded on Aug. 5, 2011.

During the current audit, the following recurring findings were identified:

- Incorrect longevity pay.
- Control weakness over expenditure processing.

Contact:

Derik Montique, CFE
512-305-9761

Contributing Auditor:

Aleks Nećak

DETAILED FINDINGS — PAYROLL

Underpayment of Longevity

Finding

We identified two employees who were underpaid longevity pay. One employee's prior state service verification form was in the file; however, the state service credits were not entered into the payroll system. The additional service resulted in an underpayment of longevity pay of \$20.00. The other employee's service credits were entered incorrectly into the payroll system. After correction, it was determined the employee was underpaid longevity pay of \$120.00. These findings were outside the audit period and are not included in Appendix 1. As a result of the audit, the Court reviewed and credited each employee for the underpaid amounts in the current pay period. The Court will pay any outstanding amounts through miscellaneous claims.

The Court's procedures include obtaining prior state service verifications whenever an employee indicates previous state employment on the Court's internal form. In these instances, the Court overlooked one employee's previous state employment and entered the incorrect dates for the other employee.

When an agency hires an employee, the agency must research whether the employee has previous state employment. If prior state employment exists, the agency must confirm the amount of lifetime service credit and properly record it or run the risk of underpaying longevity pay. See the [Texas Payroll/Personnel Resource — Longevity Pay](#).

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 continue to review each employee's job application and resumé and the Court's internal form for prior state service for all current and new employees and ensure that the verification is recorded properly.

Court Response

Court procedures regarding the verification of prior state service have been reviewed. The Court will continue to review a new employee's job application and resumé to ensure all prior state service is recorded properly and entered correctly in USPS/CAPPS.

Underpayment of Salary

Finding

An employee was underpaid salary for the final month's regular salary payment. The leave balance was calculated incorrectly, resulting in the employee being underpaid by eight hours for the final month's payroll. The employee terminated with 25 hours of vacation time but was only paid for 17 hours. This caused the employee to be underpaid by \$164.59.

The payroll schedules are not included with this report due to confidentiality issues.

Recommendation/Requirement

The Court must review its controls and personnel records to ensure that when calculating salary payment, the correct number of hours are recorded and used in the calculation.

Court Response

A skeleton crew holiday was overlooked when calculating the final pay for the terminating employee. A review of procedures has been conducted to ensure the correct number of hours are calculated for the final paycheck of future employees upon termination.

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 did not review or test any internal or compensating controls that the Court may have relating to USAS, USPS or the Texas Identification Number System (TINS) security or internal transaction approvals.

The Court had two employees who could process and release payrolls through USPS without oversight. One of those employees could also process and release payments through USAS. The Court received a schedule of this finding during fieldwork. The Court stated that it is a small court and does not have the personnel to distribute duties any further; it is very careful to let one person process and another person approve, but there is some overlapping on controls.

We ran a report to see whether any of the Court's payment documents processed through USAS and USPS during the audit period because of the action of only one person. The report identified 16 USPS documents totaling \$1,558,443.62 that processed without oversight. We reviewed samples from the 16 documents totaling \$1,264,635.17. All the payments reviewed were valid expenditures.

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.

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 electronic 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 \(B.005\)*](#).

Court Response

The Court is a small judicial entity. USAS payments are processed by the Accountant and reviewed and released by the Clerk. USPS payments are processed by the Clerk and reviewed and released by the Chief Justice. No payments are processed without oversight.

Comptroller Response

The Court may have internal or compensating controls. However, during the audit we identified 16 USPS documents that were initiated and approved by the same person without electronic oversight.