Post-Payment Audit of the Fifth Court of Appeals
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EXECUTIVE SUMMARY

Audit scope

We audited a sample of the Fifth Court of Appeals (Court) purchase transactions and all payroll and travel transactions that processed through the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS) during the period beginning June 1, 2014, through May 31, 2015, 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 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.

Payroll transactions and payroll 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:

• Missing prior state service verifications.

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.

• No issues were identified.


**Travel transactions**

Travel transactions were audited for compliance with the GAA, Travel, and other pertinent statutes.

The audit identified:

- Incorrect travel reimbursement amount.
- Missing statutory authority for reimbursing lodging expenses.
- Early check-in fee not payable.
- Incorrect processing of non-overnight meals.

**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 payments through USAS,
  - Process and release payrolls, and
  - Pick up warrants from the Comptroller’s office and approve vouchers.
- One of the two employees could also adjust payment instructions in the Texas Identification Number System (TINS) and approve vouchers.

**Fixed assets**

The audit included a review of a limited number of fixed assets acquired by expenditures during the audit period to test for proper tracking in the Court’s internal system.

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

**Direct deposit authorization forms**

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:

- Two instances where the individuals failed to indicate whether the funds would be forwarded to a financial institution outside the United States.

These forms did not adhere to the National Clearing House Association rules requiring the identification of a direct deposit payment if it is an International Automated Clearing House 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. 19, 2011.

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

- Missing prior state service verifications.
- Control weakness over expenditure processing.

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DETAILED FINDINGS — PAYROLL

Missing Prior State Service Verification

Finding

During the payroll audit, we identified two instances where current employees of the Court had submitted applications listing prior state service that was not verified. This was identified by reviewing an internal report generated to help identify missing prior state service. During audit fieldwork, the Court sent a verification form to the Employees Retirement System of Texas (ERS), and the Court sent a verification form to the University of Texas at Dallas (UTD) for the other employee. After verifications were received, the additional employment was entered into USPS. The finding resulted in a change in the employees’ effective service dates and underpayments of the longevity amounts of $240.00 and $720.00.

The proper calculation of the effective service date is derived by subtracting the total days of lifetime service credit from the most recent employment date. That date is used to determine when the longevity pay is to be increased.


We provided the Court with the schedule of the finding and the longevity underpayment calculations during fieldwork. The schedules are not included with this report due to confidentiality issues.

Recommendation/Requirement

The Court must ensure that prior state service is properly verified and documented for its employees.

The Court must compensate the employees who were underpaid longevity pay.

The Court must also ensure that its internal operating procedures include quality control measures that will detect any underpayments of compensation to a state employee.

Court Response

The Fifth Court of Appeals (Fifth Court) has a “verification of prior state service” form that it asks new employees to fill out. The Fifth Court continues to educate its employees to please report all prior state service. This Court also compensates its employees should the employee be underpaid due to missed longevity credit.
DETAILED FINDINGS — TRAVEL

Incorrect Travel Reimbursement Amount

Finding

We identified two instances where employees were overpaid for travel expenses. The travelers were reimbursed the authorized amount instead of the actual amount for lodging. The amounts in error were $183.06 and $105.00. The employee that completed the travel voucher used the wrong amounts for reimbursement.

The Court did not detect the error when processing the travel reimbursement. As a result of the audit, the employees reimbursed the Court for the overpayment.

Recommendation/Requirement

The Court should caution its employees and approval staff to verify all totals that are submitted manually.

Court Response

The Fifth Court contacted and set up training for its three secretaries and the administration staff to go through the Comptroller’s Fiscal Management Training Center. The class was an all-day session done on Oct. 1, 2015. It was very detailed oriented and provided substantive information.
Early Check-In Fee Not Payable

Finding

We identified one instance in which the Court reimbursed an employee who paid an early check-in fee with Southwest Airlines. Early check-in fees are not payable unless a business need exists. The Court reimbursed these expenses based on an internal memo from the traveler.

According to Texas Government Code, Section 660.007(a), 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

The Court must ensure that all travel expense claims are accurately reviewed for legality and accuracy prior to payment.

The Court must obtain a reimbursement from the traveling employee unless it determines it is not cost effective to do so.

Court Response

The Fifth Court contacted and set up training for its three secretaries and the administration staff to go through the Comptroller’s Fiscal Management Training Center. The class was an all-day session held Oct. 1, 2015. It was very detailed-oriented and provided substantive information.
Incorrect Processing of Non-Overnight Meals

Finding

We identified one transaction where an employee was reimbursed for meals during non-overnight travel using a travel document instead of a payroll document. As a result, payroll taxes for this transaction were not withheld.

A state employee may be reimbursed for non-overnight meal expenses. If an employee on non-overnight travel receives reimbursement for meals, this amount would be considered income and must be reported on his or her W-2 tax form.

See Textravel – Non-Overnight Travel.

Processing the payment on a payroll document will accommodate withholding Federal Insurance Contribution Act (FICA) and federal income taxes. According to the Court, this was an oversight.

Recommendation/Requirement

The Court should strengthen its internal procedures to ensure non-overnight meal expenses are properly processed.

Court Response

The Fifth Court contacted and set up training for its three secretaries and the administration staff to go through the Comptroller’s Fiscal Management Training Center. The class was an all-day session held Oct. 1, 2015. It was very detailed-oriented and provided substantive information.
**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, TINS and voucher signature cards that were in effect on July 16, 2015. 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 can:

- Process and release payments through USAS,
- Process and release payroll transactions in USPS, and
- Pick up warrants from the Comptroller’s office and approve vouchers.

One of the two employees can also adjust payment instructions in TINS and approve vouchers. The Court was given a schedule of this finding during fieldwork. The schedules are not included with this report due to confidentiality issues.

We ran a report to determine whether any Court payments processed through USAS or USPS during the audit period because of the action of only one person. We identified 30 USAS documents that were either entered and approved, or altered and approved, by the same person without electronic oversight. These documents resulted in payments totaling $34,817.53. We reviewed documents with amounts totaling $15,920.94 during the course of the audit and determined all were valid expenditures. We provided the Court with an electronic copy of this report during fieldwork.

To reduce risks to state funds, agencies should have controls over expenditure processing that segregate each accounting task to the greatest extent practicable. Ideally, no individual should be able to process transactions without another person’s involvement.

The Court stated that this was necessary due to the limited number of accounting staff and their job responsibilities.

**Recommendation/Requirement**

The Court should periodically 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 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)](#) about reducing risks to state funds.
Court Response

Per FPP B.005, the Fifth Court has implemented and will request the Risky Document Report (DAFR9840) as part of their internal procedures so the same user who entered or altered will be documented. There will also be a memo to the file as to why this took place and signed off by both the business administrator and the budget analyst. The goal of the Fifth Court is to be open and transparent.