

Fiscal Management Division
Statewide Fiscal Services Dept.
Expenditure Audit Section
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Post-Payment Audit of the State Office of Risk Management



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EXECUTIVE SUMMARY

Audit scope

We audited a sample of the State Office of Risk Management (Office) 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, 2013, through Nov. 30, 2014, to determine compliance with applicable state laws.

The Office 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 Office should implement the recommendations listed in the Detailed Findings of this report. It is the Office'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 Office's documents comply in the future. The Office 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 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:

- One missing prior state service verification causing an underpayment of \$540.00.
- One overpayment of longevity for \$280.00.

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, [Textravel](#) and other pertinent statutes.

- No issues were identified.

Internal control structure

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

The review identified:

- Five employees who could process and release payments through USAS.

Security

The audit included a security review to identify any of the Office'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 termination.

Fixed assets

The audit included a review of a limited number of fixed assets acquired by the Office during the audit period. Their physical existence and use for state business was verified.

- All assets tested were in their intended location.

Prior post-payment audit and current audit recurring findings

A prior post-payment audit of the Office's payroll, purchase, travel and grant transactions was concluded on March 24, 2011.

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

- Incorrect payments of longevity.
- Control weakness over expenditure processing.

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DETAILED FINDINGS — PAYROLL

Incorrect Longevity Pay

Finding

In our audit of the payroll transactions, we identified one employee with incorrect months of state service credit. The prior state service was listed on the employee's job application; however, the Office failed to verify and include it in this employee's longevity calculation. As a result of the audit, the Office obtained the prior state service documentation and corrected the state effective service date in USPS. This oversight resulted in an underpayment of \$540.00 in longevity pay for the audit period.

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

See [Texas Payroll/Personnel Resource – Non-Salary Payments/Longevity Pay](#).

We also identified an instance where leave without pay (LWOP) was not properly entered for an employee due to oversight. The employee had one month of LWOP at a prior state agency that was not entered in USPS. The Office stated that the LWOP was overlooked when entering the service dates in USPS. As a result of this omission, the employee was overpaid \$280.00 in longevity pay.

An individual who is on leave without pay for an entire calendar month does not accrue lifetime service credit for the month.

See [Texas Payroll/Personnel Resource – Leave without Pay; Leave of Absence](#).

We provided the Office with the schedule and calculations of the error amounts during fieldwork. The documents are not included with this report due to confidentiality issues.

Recommendation/Requirement

The Office must review its controls and personnel records to ensure accuracy and completeness, as well as guarantee that its internal operating procedures include quality control measures that will detect and prevent any incorrect compensation to an employee. See Texas Administrative Code, Chapter 34, Section 5.40(c). The Office should also advise its employees to verify all totals submitted. The Office should consider compensating for the benefit underpayment and recovering the overpayment in accordance with the Texas Government Code, Chapter 666.

In addition, when employees have any LWOP that is more than a full calendar month, the Office must ensure that the LWOP is properly entered in USPS.

Office Response

Payroll and Human Resource services are provided for the Office by the Office of the Attorney General through statutory administrative attachment. The following response was provided by the OAG Human Resources Division:

Regarding the unpaid longevity, at the time of the employee's hire, the Human Resources Division (HRD) of the Office of the Attorney General, who handles the administrative functions for the State Office of Risk Management, checked prior state service based only on the information provided by the employee on the New Employee Information Sheet. It is now our practice to check for prior state service for any past employment referenced on that form, as well as, on the employee's employment application. This new process will help to avoid instances in which the employee lists the service as prior employment on his/her application but does not reference it on his/her New Employee Information Sheet.

Regarding the months of LWOP for the other employee, the system automatically populates the HOBUS screen based on the information that is entered on the HNHLS screen. The Comptroller's office updated the field with a manual override that is not available to the agency. We will work with the Comptroller's office to make sure that future LWOP is correctly listed.

Comptroller Response

The Comptroller's recommendation aims at ensuring that the Office understands and uses USPS functionality appropriately. When the need arises to change an employee's status in situations such as Leave Without Pay (LWOP), the Office must enter the LWOP start date and the LWOP return from leave date on the HOBUS screen. In turn, these transactions will generate the appropriate reason code on the HNHLS screen. The Office does not need to enter any data on the HNHLS screen. With the Comptroller's assistance, the Office should be able to make the appropriate entry in USPS without the need for Letter of Authorization (LOA) data change adjustments.

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 the Office placed on its accounting staff's ability to process expenditures. We reviewed the Office's security for USAS, USPS, and Texas Identification Number System (TINS) as well as signature cards. We did not review or test any internal or compensating controls that the Office may have relating to USAS, USPS, or TINS security or internal transaction approvals.

During the audit period, the Office had five employees who could process and release payments in USAS without oversight. It was the Office's position that these employees did not carry a significant risk for fraud or financial loss due to the preventive security control implemented on April 17, 2015, to be in compliance with [USAS Accounting and Payment Control \(FPP\) B.005](#).

We ran a report to determine whether any of the Office's payment documents processed through USAS or USPS during the audited period because of the action of only one individual. The report did not identify any expenditures that were processed without oversight.

To reduce risks to state funds, the Office should maintain controls over expenditure processing that segregate each accounting task to the greatest extent practical. Ideally, no individual should be able to process accounting transactions within the statewide financial systems without another person's involvement.

As a result of the audit, the Office requested that a preventive control be implemented for all of its transactions in USAS. With this modification, a system edit warns about the release of a document that the same user entered or altered. This document tracking implementation was put in place effective April 17, 2015.

Recommendation/Requirement

The Office should continue to 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. We still recommend that the Office change its current warning-preventive to a fatal-preventive control in order to completely disallow the release of a document that the same individual entered or altered. See [USAS Accounting and Payment Control \(FPP B.005\)](#) about reducing risks to state funds.

Office Response

Controls will be reviewed and updated as required. Workers' compensation payments are time-sensitive with potentially significant financial penalties for late payment. On rare occasions, circumstances may require the processing and release by one staff member. These rare instances make complete task segregation impracticable; however, any single-staff release is subject to full documentation and timely audit.

The Office has a strong system of controls in place which would prevent or detect any misappropriation or misuse of funds. The Risky Document Report is requested on a quarterly basis and it is provided directly to the Executive Director and Deputy Executive Director for review. If no relevant transactions occurred during the quarter, the report simply does not print. The Office requests that the report be produced regardless, stating "No violations" if none have occurred.

Comptroller Response

Currently, the Office has a warning-preventive control in place, which does not completely mitigate the risk. To eliminate the risk, the independent fatal-preventative control modification must be implemented to completely disallow the release of documents processed without oversight.

Employee Retaining Ability To Expend Funds After Termination

Finding

During the audit period, the Office did not notify the Comptroller's office about the termination of one employee designated by the Office to approve its expenditures. The Office stated the error occurred due to an oversight.

The lack of timely notification meant the employee remained listed on the Office's voucher signature cards for 213 days after termination. The employee could have approved paper vouchers submitted to the Comptroller's office during that time. Any payment produced by a paper voucher approved under the employee's expired authority would have constituted an unapproved expenditure. We ran a report to determine whether any vouchers indeed were approved by the employee. There were no paper vouchers approved by the former employee after the employee's termination date.

Whenever a designated employee terminates employment with an agency, the Comptroller's office must receive notification of the employee's termination. See Texas Administration Code, Chapter 34, Section 5.61(K). Any officer or employee may send the Comptroller's office notification of termination or revocation. See Texas Administrative Code, Section 5.61(k)(3)(B). Additionally, this citation does not specify how the Comptroller's office must be notified about designated employees' terminations. Therefore, the Comptroller's office will accept emails, faxes, letters, memos or other writings in advance of the expiration date, as long as the writings indicate that the designated employee has terminated employment, had security revoked or will experience either a termination or a revocation in the near future, and the notification specifies the effective date of the termination/revocation.

Recommendation/Requirement

The Office must enhance its controls to ensure compliance with the preceding requirements. The Office 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 termination becomes effective and follow up with the Comptroller's office to ensure that the notification was received and the revocation occurred.

Office Response

The Office concurs. Processes have been implemented. The Office has established a Compliance and Practices function within the Legal Services Division, overseen by a dedicated Compliance Officer. The improved process will be formalized in documented procedures by the Compliance Officer as part of ongoing policy and procedure reviews.