

Fiscal Management Division
Statewide Fiscal Services Dept.
Expenditure Audit Section
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Post-Payment Audit of Texas Ethics Commission



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EXECUTIVE SUMMARY

Audit scope

We audited a sample of the Texas Ethics Commission (Commission) payroll, purchase and travel transactions processed through the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS) during the period beginning Sept. 1, 2014, through Aug. 31, 2015, to determine compliance with applicable state laws.

The Commission receives appendices with the full report that includes 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 Commission should implement the recommendations listed in the Detailed Findings of this report. It is the Commission'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 Commission's documents comply in the future. The Commission 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.

- No issues were identified.

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.

Revenue refund transactions

The audit included a limited review of the Commission's transactions relating to refunds of revenue. These reviews consisted of verifying that the documentation provided reconciled with the payment amount in our sample.

- No issues were identified.

Payment/Travel card transactions

Purchase transactions were audited for compliance with the GAA, [eXpendit](#), the [State of Texas Procurement Manual](#) and other pertinent statutes.

The audit identified:

- Incorrect processing of third-party transactions.

Travel transactions

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

- No issues were identified.

Direct deposit authorization forms

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

The audit identified:

- One instance where the employee failed to indicate on the form whether the funds would be forwarded to a financial institution outside the United States.

This form 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.

Security

The audit included a security review to identify any of the Commission's employees with security in USAS, USPS, Texas Identification Number System (TINS) 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 security can be revoked in a timely manner.

The audit identified:

- One employee who retained the ability to expend funds after termination.
- One employee who retained the security to expend funds after authority expired.
- Two employees who did not sign the Confidential Treatment of Information Acknowledgment (CTIA) form in a timely manner.

Internal control structure

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

The audit identified:

- One employee who can pick up warrants from Comptroller's office and approve vouchers.
- One employee who had the ability to adjust payment instructions in TINS and also approve paper vouchers.
- Two employees who can process and release payroll transactions.

Fixed assets

The audit included a limited number of fixed assets acquired by the Commission during the audit period to test for accurate reporting in the State Property Accounting (SPA) System. Their physical existence and use for state business was verified.

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

Prior post-payment audit and current audit recurring findings

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

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

- Control weakness over expenditure processing.

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DETAILED FINDINGS — PAYMENT/TRAVEL CARD

Incorrect Processing of Third-Party Transactions

Finding

We ran a report outside of the sample to identify potential payments processed incorrectly to third-party vendors by the Commission for the audit period. During our review of this report, we identified 69 payments processed incorrectly to the state's payment card vendor. The incorrect payments totaled \$9,535.04. The Commission failed to provide the correct billing account number as prescribed by [Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements \(FPP A.043\)](#) and [USAS and CAPPS Financials Invoice Number Field Requirements \(FPP E.023\)](#). As a result, the vendor was unable to post payments directly to the Commission's procurement and travel card accounts; this may further result in unidentified and delayed payment postings and potential lost rebate earnings.

Recommendation/Requirement

The Commission must enhance its procedures to ensure payments for third-party transactions are processed in accordance with [FPP A.043](#) and [FPP E.023](#). We recommend the Commission review payment card statements to ensure the payments were posted correctly to avoid any account delinquency or reconciliation issues.

Commission Response

Management concurs with the recommendation. Staff is now aware of the FPP A.043 and FPP E.023 rules and the process used in the billing account number used for reimbursing the State Treasury for use of procurement and travel card accounts. The Commission implemented the recommendation by attaching a copy of the FPP A.043 and FPP E.023 rules with the procurement and travel vouchers, as applicable.

DETAILED FINDINGS — SECURITY

Employee Retained Ability and Security to Expend Funds After Termination/Authority Expired

Finding

During the audit, the Commission did not notify the Comptroller's office about the termination of one employee designated by the Commission to approve its expenditures.

The employee remained listed on the Commission's voucher signature cards for 22 days following termination. The Commission is required to notify the Comptroller's office within five days after termination, as a result the Commission's notification was 17 days delinquent. During those 17 days, the former employee could have approved paper vouchers submitted to the Comptroller's office, and any payment produced by a paper voucher approved by the employee's expired authority would have constituted an unapproved expenditure. We verified that no paper vouchers (expedites) were approved by the employee after the date of termination. See [Texas Administrative Code, Chapter 34, Section 5.61](#).

The lack of timely notification also meant this employee retained USAS security for 22 days after termination, so the employee could have approved electronic vouchers during that time. When an employee's authority to approve an agency's expenditures is revoked for any reason, the employee's USAS 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. We verified that the terminated employee did not approve any electronic vouchers or release any payment documents after the termination date. See [Texas Administrative Code, Chapter 34, Section 5.61\(k\)\(5\)\(A\)-\(B\)](#).

According to the Commission, the employee remained on the signature card and USAS security because the security coordinator was new to the position and was unaware of this requirement. Any officer or employee may send the Comptroller's office notification of termination or revocation. See [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 a designated employee has terminated employment or had security revoked and specifies the effective date of the revocation/termination.

Recommendation/Requirement

The Commission must enhance its controls to ensure compliance with the [Texas Administrative Code, Chapter 34, Section 5.61](#) requirements. The Commission must also ensure the person responsible for notifying the Comptroller's office of the designated employee's does so on or before the effective termination date and follows through with the Comptroller's office to ensure the notification was received and the revocation occurred.

Commission Response

Management concurs with the recommendation. The staff member who is new to this process is now aware of the five day period in which security access must be terminated. The Human Resources (HR) department is also responsible for security access. Therefore, HR is now including a copy of the CTIA form in all eligible employees' personnel files in a very prominent viewing place. This will assist the department with paying close attention to which employees have security access and make that a part of the termination process.

Control Weakness Over Expenditure Processing/Confidential Treatment of Information Acknowledgment (CTIA) Missing

Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations that the Commission placed on its accounting staff members' abilities to process expenditures. We reviewed the Commission's security in USAS, USPS, TINS along with the voucher signature cards in effect on Feb. 17, 2016.

One employee can pick up warrants from the Comptroller's office and approve paper vouchers and one employee can adjust payment instructions in TINS and approve vouchers. Also, two employees can process and release payroll transactions in USPS. The Commission stated they are a small office and their employees must perform various tasks in order not to delay their daily functions. We provided the Commission a schedule of this finding 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.

As a routine part of our security review, we reviewed the Commission's compliance with the requirement that all agency users of the Comptroller's statewide financial systems complete a CTIA form. When a new user needs access to the Comptroller's statewide financial systems, the agency's security coordinator has the new user read and sign the CTIA form. A reviewing official signs the agreement and the agency's security coordinator keeps it on file for as long as the user has access to the systems, plus five years. In our review, we identified two CTIA forms signed after the individuals had accessed the Comptroller's statewide financial systems. The Commission stated this was due to an oversight.

Recommendation/Requirement

The Commission 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 Commission should enhance its procedures to ensure that the original CTIA form is kept on file as long as the user has access to the statewide accounting systems, plus the five year retention period.

Commission Response

Management concurs with the recommendation.

The Commission takes the controls over expenditure processing and segregation of such tasks very seriously. To enhance the security of such actions, on December 28, 2011, the Commission requested, through Change order CI50743 in the Security Request System of the Comptroller, that the preventative control edit be placed on our agency. The Commission requested the edit option of Blank (Fatal), which will prevent a user from releasing a batch that the same user entered or altered for the Commission.

The current staffing structure in the Administration Division provides for an appropriate separation of functional duties if everyone is available. In a small agency, however, it is often challenging to have the staff available to maintain a complete separation of duties at all times. During the audit process, your office identified three employees with access to functions that showed a control weakness. Two employees (employees A and C) had the ability to request and release payroll, and the third employee (employee B) had the ability to adjust payment instructions in TINS and approve vouchers. Employee A also had the ability to pickup warrants from the Comptroller's office and approve vouchers. We have completed the process to remove access to approve vouchers from employee B, the ability to release payroll from employee A, and the ability to request payroll from employee C. We will immediately start the process to remove Employee A from the ability to pickup warrants from the Comptroller.