

Fiscal Management Division
Statewide Fiscal Services Dept.
Expenditure Audit Section
Auditor: Anna Calzada

Audit Report # 104-18-01
June 28, 2018

Post-Payment Audit of the Legislative Budget Board



Glenn Hegar
Texas Comptroller of Public Accounts

Table of Contents

Executive Summary

Audit scope	i
Payroll transactions and payroll deductions	i
Purchase transactions	i
Travel transactions.....	ii
Direct deposit authorization form.....	ii
Security.....	ii
Internal control structure.....	ii
Prior post-payment audit and current audit recurring findings	ii

Detailed Findings — Purchase

Missing Statutory Authority for Purchase	1
Missing Receiving Documentation	2
Missing Purchase Order	3

Detailed Findings — Expenditure Approvals

Control Weakness Over Expenditure Processing	4
--	---

EXECUTIVE SUMMARY

Audit scope

We audited a sample of the Legislative Budget Board (Board) 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 June 1, 2016, through May 31, 2017, to determine compliance with applicable state laws.

The Board 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 Board should implement the recommendations listed in the Detailed Findings of this report. It is the Board'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 Board's documents comply in the future. The Board 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. 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 and Contract Management Guide](#) and other pertinent statutes. We also audited the Board's compliance with the prompt payment law and scheduling rules.

The audit identified:

- Missing statutory authority for purchase.
- Missing receiving documentation.
- Missing purchase order.

Travel transactions

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

- No issues were identified.

Direct deposit authorization form

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

- No issues were identified.

Security

The audit included a security review to identify any of the Board's employees with security in USAS 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.

- No issues were identified.

Internal control structure

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

The audit identified:

- One employee could adjust payment instructions in the Texas Identification Number System (TINS) and approve paper vouchers; process and release payments through USAS; and process and release payrolls without oversight.

Prior post-payment audit and current audit recurring findings

A prior post-payment audit of the Board's payroll, purchase and travel transactions was concluded on July 24, 2012.

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

- Controls over expenditure processing.

Contact:

Anna Calzada
(512) 463-4338

Contributing Auditors:

Bill Hornstein
Scott Coombes

DETAILED FINDINGS — PURCHASE

Missing Statutory Authority for Purchase

Finding

We identified three transactions where the Board purchased food for its employees and the payments were not coded correctly. Therefore, the purchases were not readily identifiable.

[Texas Constitution, Art. III, Section 51](#) prohibits a state agency from purchasing food, coffee, cream, sugar and similar items with state-appropriated funds that the employees of or visitors to the state agency would consume. For additional information, see [Texas Attorney General Opinion No. C-557 \(1965\)](#).

A state agency may purchase a good or service only if the agency has specific or implied statutory authority for the purchase. A state agency has implied statutory authority to purchase a good or service only if it is necessary for the agency to fulfill its specific statutory duties. See [eXpendit – Statutory Authority for Purchases](#).

The Board stated that it made selected purchases of food in good faith pursuant to their understanding that they had the legal authority to do so. The auditors verified that the staff of the Board has reimbursed the state for the food purchases made in fiscal 2018, which was outside of our audit scope.

Recommendation/Requirement

The Board may not purchase food for its employees or visitors. The Board must determine whether it has specific or implied statutory authority to purchase goods or services before procuring the goods or services. Additionally, the Board should ensure transactions are recorded using the correct object code to ensure accurate financial reporting.

Board Response

The agency has in good faith made selected purchases of food, pursuant to its understanding of its legal authority to do so. The agency learned during the audit that the Comptroller's office has a differing legal perspective. The agency will adhere to this guidance and began implementation in January 2018 by refunding all food-related purchases made in the current fiscal year (fiscal 2018).

Missing Receiving Documentation

Finding

We identified three purchase transactions missing receiving documentation to verify receipt of goods purchased. The Board was unable to locate the documents needed to verify the receipt of the items purchased. The Board's current policy for receiving goods/services is to rely on certain staff's oral confirmation that the goods/services were received. The Board stated that going forward it would verify receipt of goods/services in writing.

Without proper documentation, we could not determine whether the information entered into USAS was an accurate reflection of the purchases made. Accurate documentation must be maintained to verify that payments are valid and to ensure a proper audit trail.

As provided by [34 Texas Administrative Code Section 5.51\(c\)\(1\)\(D\)](#), it is the responsibility of a state agency and its officers and employees to ensure "that for each purchase document, the agency maintains necessary documentation for proving that each payment resulting from the document is legal, proper, and fiscally responsible."

Supporting documentation must be made available to the Comptroller's office in the manner required. The types of supporting documentation that the Comptroller's office may require include purchase orders, requisitions, contracts, invoices and receipts. See [34 Texas Administrative Code Section 5.51\(e\)\(2\)-\(3\)](#).

Recommendation/Requirement

The Board must ensure that no payment is made without sufficient supporting documentation. The Board must also ensure that it creates and maintains supporting documentation for audit review. The Board should review and update its procedures for maintaining proper supporting documentation for all purchases.

Board Response

The agency has enhanced its verification and documentation procedure and trained staff to ensure that sufficient supporting documentation is maintained for all payments.

Missing Purchase Order

Finding

During our audit of the purchase transactions, we identified three transactions not supported by a purchase order (PO). A PO is a contract entered into between the Board and the vendor. When the Board enters into a contract for goods or services with the vendor, expenditures under the contract may not exceed the established limit.

Without a PO, it becomes difficult for the Board to ensure that it was not overcharged or billed for goods or services beyond those the Board had agreed to purchase. The Board's procedures require creation of a PO prior to obtaining goods and services, but in these instances it did not follow these procedures due to oversight.

All state agencies must deliver a PO to their vendors. The PO must include the terms, conditions and specifications to which the vendor must comply in fulfilling its obligations to the agency as well as any vendor exceptions that have been accepted. The PO number must be referenced on all bills of lading, packing slips, back orders, invoices, and other transactional documents.

According to [34 Texas Administrative Code, Section 5.51\(c\)\(1\)\(D\)](#), it is the general responsibility of a state agency and its employees to ensure “that for each purchase document, the agency maintains necessary documentation for proving that each payment resulting from the document is legal, proper, and fiscally responsible.”

Recommendation/Requirement

The Board must ensure that documentation of the agreement is prepared at the time the goods or services are ordered from the vendor. Once the Board has made a final approved agreement with the vendor, the Board may not pay any amount in excess of the agreed-upon amount unless the PO is amended due to the vendor providing an additional consideration to the Board.

Board Response

The agency will prepare and retain a purchase order or similar document that identifies the approved item or service and unit cost (and number of units, if relevant) for all appropriate items or services. Staff have been trained to release payment only after the details of an invoice have been validated against the relevant purchase order.

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 Board placed on its accounting staff's abilities to process expenditures. We reviewed the Board's security in USAS, USPS, TINS and voucher signature cards that were in effect on Dec. 5, 2017. We did not review or test any internal or compensating controls that the Board might have relating to USAS, USPS or TINS security or internal transaction approvals.

The Board has one employee who could process and release payments through USAS without oversight, process and release payrolls without oversight, and adjust vendor profiles in TINS and approve paper vouchers. According to the Board, it makes every effort possible not to process documents without oversight; however, on occasion, it is necessary for an individual to process expenditures without oversight due to availability or staffing limitations.

We ran a report to determine whether any of the Board's payment documents processed through USAS during the audit period because of the action of only one person. There were no documents that were either entered and approved, or altered and approved, by the same person without another person's electronic oversight.

The Board received a schedule of this finding during fieldwork.

Recommendation/Requirement

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

The Board must implement the following recommendations:

1. The Board must elect to have the document tracking control edit on the Agency Profile (D02) set to either:
 - Prevent a user from releasing a batch that the same user entered or altered for the agency
 - OR–
 - Warn the user when the same user attempts to release his or her own entries or changes. See [USAS Accounting and Payment Control \(FPP B.005\)](#).
2. The Board must review and consider the preventive and detective controls over expenditure processing discussed in [USAS Accounting and Payment Control \(FPP B.005\)](#), such as the Risky Document Report (DAFR9840), which identifies documents that the same user entered or altered and then released for processing.

3. The Board must limit the access of users who can enter/change voucher or release/ approve batches in USAS to view-only access in TINS (PTINS02). An individual must not be able to create a vendor or change a vendor profile, create a payment, and approve the payment.
4. The Board must work with Comptroller's office Statewide Fiscal Systems security staff to set up user profiles that separate the entry and approval of payroll transactions in USPS.

Board Response

The agency is implementing a package of actions (detailed below) to strengthen controls over expenditure processing, pursuant to audit recommendations. All changes will be implemented no later than June 30, 2018. The agency is eliminating the ability of a single individual to both create/alter and release a transaction in USAS or USPS through items 1, 3, and 4. Additionally, the agency is implementing a routine reporting and review protocol in item 2 that will identify any dual transaction, so that it can be promptly addressed.

1. *The agency activated the document tracking control edit on the Agency Profile (D02) to prevent a user from releasing his or her own entries or changes. The Comptroller's office confirmed this change on May 24, 2018.*
2. *The agency Accountant will each month secure the DAFR9840 and provide it to the Assistant Director for Operations and Finance (Assistant Director). The Assistant Director will each month review the DAFR9840 for any entries that were entered or altered by the same user who released the batch. This protocol has been established and communicated. Monthly generation and review will begin in June, when May transactions will be reviewed. Further, the agency is requesting and will review a DAFR9840 for the first eight months of fiscal 2018: September 2017 through April 2018.*
3. *The agency revised system access in TINS so that no single individual can both enter/change and release batches in USAS. The Comptroller's office confirmed this change on May 22, 2018.*
4. *The agency took action to ensure that no user profiles can both enter/alter and approve payroll transactions in USPS. The Comptroller's office confirmed this change on May 24, 2018.*

In the past, a single individual processed and released the same payroll only when (1) the accountant was unable to process payroll, and (2) the assistant director and the director were both unable to release payroll, and (3) the assistant director or director provided prior, written approval for the same individual to jointly process and release a specific payroll. The audit found no instance of a single individual entering/altering and approving payroll without another person's electronic oversight for the time period audited.

With the changes noted above, a single individual will not be able to both create/alter and process payroll in the future.