

Fiscal Management Division
Statewide Fiscal Services Dept.
Expenditure Audit Section
Auditor: Alberto Lañas

Audit Report # 451-18-01
June 29, 2018

Post-Payment Audit of the Texas Department of Banking



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
Special reports	ii
Security.....	ii
Internal control structure.....	ii
Fixed assets.....	iii
Prior post-payment audit and current audit recurring finding.....	iii

Detailed Findings — Purchase

Missing Central Master Bidders List Solicitation.....	1
---	---

Detailed Findings — Travel

Lack of Conservation of State Funds.....	3
--	---

Detailed Findings — Special Reports

Incorrect Billing Account Number	5
Unauthorized Use of State-Issued Travel Card	6

Detailed Findings — Security

Control Weakness Over Expenditure Processing.....	8
---	---

EXECUTIVE SUMMARY

Audit scope

We audited a sample of the Texas Department of Banking (Department) 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 Department 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 Department should implement the recommendations listed in the Detailed Findings of this report. It is the Department'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 Department's documents comply in the future. The Department 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.

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.

The audit identified:

- Three contracts missing Central Master Bidders List (CMBL) solicitations.

The Department did not incur and pay any prompt payment interest during the audit period.

Travel transactions

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

The audit identified:

- Five transactions lack conservation of state funds.

Special reports

The audit included a review of several reports to test conformance with a variety of topics. Procurement and travel card transactions were audited for compliance with [eXpendit](#), the [State of Texas Procurement and Contract Management Guide](#), the [State of Texas Contract Management Guide](#), [Textravel](#) and other pertinent statutes.

The audit identified:

- Nine transactions with incorrect billing account number entered in the invoice number field.
- One expenditure with unauthorized travel card use.

Security

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

The audit identified:

- Two employees could process and release payments in USAS without oversight, process and release payrolls in USPS without oversight, pick up warrants from the Comptroller's office and approve vouchers, adjust vendor profiles in TINS and approve vouchers, and process and release payments between the Department's internal system and USAS without oversight.

Fixed assets

The audit included a limited number of fixed assets acquired by the Department during the audit period to test for proper tracking in the Department's internal system. All assets tested were in their intended location and properly recorded in the State Property Accounting (SPA) System.

- No issues were identified.

Prior post-payment audit and current audit recurring finding

A prior post-payment audit of the Department's payroll, purchase and travel transactions was concluded on Aug. 18, 2014.

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

- Control weakness over expenditure processing.

Contact:

Alberto Lañas, MBA, CTCM
Lead Auditor
(512) 463-4582

Contributing Auditors:

Derik Montique, MBA, CFE, CTP
Jesse Ayala

DETAILED FINDINGS — PURCHASE

Missing Central Master Bidders List Solicitation

Finding

The Department did not retain documentation of the search on the Central Master Bidders List (CMBL) of all eligible suppliers for three contracts prior to their award. The Department stated that the CMBL searches were performed but it was an oversight that the search and profile printout listing all eligible suppliers was not retained.

The CMBL is a database of registered vendors who have provided contact information, as well as a list of the goods and services they offer. Vendors pay a nominal annual fee to receive notification of opportunities for solicited commodities and/or services through an invitation for bid, request for proposal, request for offer or request for qualifications. Unless exempted by law, the CMBL must be used for all procurements subject to the authority of the Statewide Procurement Division (SPD). The CMBL must also be used to gather information for noncompetitive procurement processes and vendor performance data.

Agencies must print the awarded vendor's CMBL profile showing the expiration date for file documentation. See [State of Texas Procurement and Contract Management Guide](#), Centralized Master Bidders List. Proof that the CMBL system was checked prior to any award or contract renewal being made by Texas state government entities must be obtained. See [Texas Government Code Sections 2155.263-2155.264](#) and [34 Texas Administrative Code Section 20.107\(g\)](#).

Recommendation/Requirement

To ensure adherence with the procurement rules, the Department must use the CMBL for all purchases, including services, for which competitive bidding or competitive sealed proposals are required. A copy of the CMBL search results from the specified website must be used as evidence that the Department performed a vendor search and must be included in the contract file.

Department Response

The Department agrees that the CMBL must be used and has always used the CMBL for purchases, including service, for which competitive bidding or competitive sealed proposals are required. For two of the three cited errors, the Department provided documentation to show that the vendor selected was on the CMBL before the bid was awarded. You must first go to the complete CMBL for the product or service before you can print the screen with just one vendor; thus documenting the search was performed as required. For the third cited error, the purchaser did not retain the documentation of the search but was able to show through other means that the vendor selected was on the CMBL.

Procedures have been enhanced to ensure the complete required CMBL documentation is included and retained in each applicable file. When contracts are routed for approval, the Director of Administrative Services will now review each contract file to ensure all required documentation was obtained and is included in the applicable file.

Comptroller's Response

The Comptroller appreciates the Department's revision of its procedures, as a result of the audit, to require documentation showing that the CMBL search was performed prior to the contract award. The CMBL documentation must directly relate to the contract prior to its award.

The primary purpose of a CMBL search is to determine which prequalified vendors are on the list for the agency to consider before the award phase of the procurement. All agencies are required to keep in the contract file a printout of the CMBL search results reflecting the exact date of the search, which must be prior to the award date; thereby creating a transparent selection.

DETAILED FINDINGS — TRAVEL

Lack of Conservation of State Funds

Finding

We identified five instances totaling \$1,888.54, where the Department reimbursed travelers for mileage incurred while operating personal vehicles to conduct official business. However, based on the applicable car rental rates, related taxes, cost of gas and the standard mileage rates in effect at the time of travel, we determined it was cost effective to the state if the travelers used a rental vehicle instead of personal vehicles. The Department's travel policies and procedures do not require agency travelers to use the cost comparison of rental car versus personal vehicle spreadsheet available in [TexTravel](#) prior to travel.

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. Supporting documentation must be made available to the Comptroller's office in the manner required by the Comptroller's office. See [34 Texas Administrative Code Section 5.51\(e\)\(2\)-\(3\)](#).

Recommendation/Requirement

The Department must exercise caution in its use of state funds and ensure that expenditures are fiscally responsible. The Department should prepare a cost comparison analysis before each trip showing the cost of using a rental car versus that of using a personal vehicle to ensure the most cost-effective alternative is used. The Department should develop procedures for travelers to complete cost comparisons prior to travel and subject to approval.

Department Response

The Department agrees that conservation of state funds is paramount. Historically, the Department has required cost comparisons between employees flying and driving for the conservation of state funds; however, we did not have a requirement for a comparison between an employee driving a personal vehicle and renting a vehicle. We concur that this comparison should be routinely made but we disagree with the Schedule of Errors included as Appendix 3.

Modifying our current driving versus flying comparison form (which is currently included in our Travel/Per Diem Guidelines and Reimbursement policy) for rental vehicle versus personal vehicle, we determined that it was less expensive to claim mileage as compared to rental vehicle charges in four out of the five vouchers listed in Appendix 3. For the remaining case, we calculated that the monetary impact was \$585.96 instead of the \$952.85 computed by the Comptroller's office.

In our calculation methodology, we included mileage to and from the rental car company to pick up and drop the car off. In addition, we included the hourly salary for each employee, including benefits, related to the pick-up and drop-off times for the rental vehicle. (The salary

data is currently included in our Travel/Per Diem Guidelines and Reimbursement policy for the flying/driving comparison form which has not be criticized by the Comptroller's office.) We concur these comparisons were not completed at the time of travel but had they been, as stated above, four examiners would still have driven as the least costly expense for the state.

The Department's Travel/Per Diem Guidelines and Reimbursement policy was revised to include a requirement for the rental vehicle versus driving comparison as well as other changes related to conservation of state funds and disseminated to all employees in April 2018. Henceforth, comparison forms will be completed before travel occurs.

Comptroller's Response

The Comptroller's office appreciates the Department's efforts to conserve state funds in the past and in the future by revising its policies and procedures as a result of this audit. However, at the time of the audit, these procedures and conservation methods were not in place and were not applied to the transactions in question prior to the actual travel.

DETAILED FINDINGS — SPECIAL REPORTS

Incorrect Billing Account Number

Finding

We ran a report outside of the sample to identify potential payments processed incorrectly to third-party vendors by the Department for the audit period. During our review of this report, we identified nine payments totaling \$29,297.05 that processed incorrectly to the state's credit card vendor.

The Department failed to provide the correct billing account number as prescribed by Citibank and documented in [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 may not be able to directly post payments to the Department's procurement and travel card accounts. The Department stated that it used the invoice number recommended by its Citibank contact.

Recommendation/Requirement

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

Department Response

The Department implemented Citibank payment procedures per FPP A.043 to process payments at the vendor level and FPP E.023 to include all required account number digits.

As related to the incorrect billing account issue, we previously used the invoice number recommended by our Citibank contact to ensure proper application of payment to our account. The missing two digits are leading zeros and ultimately do not change the essential digits needed to identify the correct account/vendor.

During the audit, Citibank confirmed all payments without the two leading zeros were posted properly and timely for the Department; therefore, no state rebates were lost.

Comptroller's Response

The Comptroller's office appreciates the Department's efforts to comply with the requirements of FPP A.043 and E.023. However, FPP A.043 and E.023 were created to guide and support all the state agencies participating in the Citibank State of Texas Commercial Charge Card Program to ensure consistent processes and procedures in handling transactions related to the program. Agencies are expected to follow these policies as prescribed. In addition, the risk of account delinquency, reconciliation issues and Citibank program rebate losses still exists, if requirements are not met.

Unauthorized Use of State-Issued Travel Card

Finding

During our review of 23 transactions of the travel card expenses outside of the sample, we identified one instance where an employee used a state-issued travel card to purchase alcoholic beverages. The Department indicated that its travel policies and procedures require monitoring of expenditures made with the state-issued credit card, but in this instance, the monitoring did not identify this charge. The Department indicated that all state-issued travel card transactions are paid by the employees and only appropriate expenses are reimbursed to the employees with State Treasury funds. The Department assured that this particular transaction was not reimbursed to the employee and the error occurred due to oversight.

A state agency may not reimburse a state employee for the purchase of alcoholic beverages. See [Texas Government Code, Section 660.113](#) and [TexTravel – Prohibited Reimbursements](#). A credit card issued to a public servant under a program where the card is issued at the direction and under the control of the State of Texas for state purposes may not be used for personal expenditures or any other type of expenditure not reimbursable as a state business expense under state law. See [Ethics Advisory Opinion No. 147 – Texas Ethics Commission](#). According to [34 Texas Administrative Code Section 20.413](#), state agencies shall cancel a state-issued travel credit card when the employee:

- Fails to pay the charges timely.
- Uses the card for personal transactions, or
- Is responsible for any other misuse of the credit card.

Recommendation/Requirement

The Department must ensure that all state-issued travel card transactions are properly reviewed, and ensure its travel cards are used in accordance with the applicable rules and requirements. In addition, the Department must revise its monitoring process to ensure restricted purchases do not occur in the future. The current state credit card administrator, Citibank, offers reports that can assist the Department monitor its credit card usage. The Department must offer periodic training to its credit card holders on proper use of state-issued credit cards.

Department Response

The Department has implemented this recommendation. The finding was related to an employee's accidental use of the state card for an alcoholic beverage charge of \$21.79. At the conclusion of the audit at the suggestion of the Comptroller, we contacted Citibank and had them block merchant code 5813 - Bar, Lounge, Disco, Nightclub, Tavern-Alcoholic Drinks. Employee travel cards will now be denied if attempted to use at businesses with this merchant description.

In 2017, Department employees (as a group) used their state issued credit card for approximately 4,600 charges totaling approximately \$555,000. We have enhanced our monthly audit of these Citibank transactions. In addition to the type and nature of Citibank transactions, we now audit transactions based on the merchant descriptions and review charges incurred within an employee's duty point location. Any unusual charges are investigated. We have also updated our Travel/Per Diem Guidelines and Reimbursement policy to further define the repercussions related to non-business use of the card.

Lastly, our annual Conflict of Interest form filing has been revised to require each employee to review the Department's policy statement related to the use of the state credit card and attest that they understand this policy annually.

DETAILED FINDINGS — SECURITY

Control Weakness Over Expenditure Processing

Finding

We reviewed certain limitations the Department placed on its accounting staff's ability to process expenditures. We reviewed the Department'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 agency may have relating to USAS, USPS or TINS security or internal transaction approvals.

We identified two employees with multiple security capabilities. Both employees had the security to:

- Process and release payments through USAS without oversight.
- Process and release payrolls through USPS without oversight.
- Pick up warrants from the Comptroller's office and approve paper vouchers.
- Adjust vendor profiles in TINS and approve vouchers.
- Process and release payments between the Department's internal system and USAS without oversight.

We ran a report to determine whether any of the Department's payment documents processed through USAS during the audited period because of the action of only one individual. The report did not identify any expenditures processed without oversight. We also verified that during the audit period the Department did not have any documents that were released by unauthorized users.

The Department stated this issue occurred due to its small size. The Department stated that it makes every effort to ensure one individual does not process payments without oversight. The Department stated it implemented and took several measures to strengthen internal controls and ensure proper segregation of duties as related to expenditure processing without oversight. The Department considers it is taking all possible measures to ensure a viable internal control structure.

Recommendation/Requirement

To reduce risks to state funds, the Department 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 Department must implement the following recommendations:

1. The Department must limit the access at the time it is set up (96A screen) by limiting user access to either enter/change vouchers or release/approve batches.

2. The Department 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 \(FPP B.005\)](#).
3. The Department 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 USAS.
4. The Department must limit user access by removing the user from the Agency Authorization for Warrant Pickup list or by removing the ability to release/approve vouchers in USAS from the user.
5. The Department must limit access for users who can enter/change vouchers or release/approve batches in USAS to view only 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.
6. The Department must ensure that employees with voucher/payment entry/change/delete status in the Department’s internal system are not able to also approve/release payments in the internal system or in USAS. A supervisor or another employee must approve vouchers in the internal system.

Department Response

We have implemented Recommendation 2. The Department’s D02 profile was updated to have USAS initiate a warning when the same user attempts to release a document that he/she already entered or altered.

As confirmed during the first day of the audit field work, the risky document report generated by the Comptroller’s Office shows there were no instances during the audit period where the same individual entered and released the same payment in USAS.

We respectfully disagree with the need for the remaining recommendations. The Department makes every effort to ensure one individual does not process expenditure payments without oversight. However, as a small agency with a limited accounting staff, it is necessary for certain key staff to have this ability in emergency situations. We believe our current robust internal controls are appropriate and reliable to ensure only proper expenditures are processed by the Department. In addition to the above, the following controls are in place:

1. *Based on a recommendation from the 2016 State Auditor’s Office audit, a MUSL (our internal payment processing system) monthly report is run and compared to USAS reports (DAFR2901 and USAS screen 37) to document if any entry and release by the*

same employee in the internal accounting system and USAS has occurred. This report is presented to the Deputy Commissioner for review monthly. Since implementation, there have been no such instances identified.

- 2. In the event an individual must process and release a payment, the related transactions are required to be reviewed the following day by the Director of Administrative Services, the Chief Accountant, or the Deputy Commissioner.*
- 3. We reconcile our internal accounting system to USAS monthly. This reconciliation is prepared by the Chief Accountant and reviewed by the Director.*
- 4. Monthly financial statements (by division) are prepared by Accounting staff and are reviewed by the Banking Commissioner, Deputy Commissioners, and Division Directors.*
- 5. Each Division Director participates in the preparation of the budget for their area. Quarterly, divisional financial statements with budget to actual comparisons both for the quarter and year to date are provided to the Commissioner, Deputy Commissioners and Division Directors. Each Director must explain any budget deviation for their division that is in excess of \$1,000 and 5% of the budget.*

These reviews mitigate the possibility of an improper expenditure being made. We believe we are taking all necessary measures to ensure a viable internal control structure without adding staff or hindering our business and accounting operations.

Comptroller's Response

The Comptroller appreciates the Department's efforts to mitigate the possibility of an improper expenditure being made and understands the limitation posed by the agency's small size. However, the risks of non-segregated system access still exist and will remain regardless of the other mitigating controls in place to prevent fraudulent activities from occurring.