



An Audit of the Texas School for the Deaf

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Executive Summary

Purpose and Scope

The objectives of the Texas School for the Deaf (School) audit were to determine whether:

- Contracts were procured according to applicable state laws and Comptroller requirements.
- Payments were processed according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Documentation to support those payments was appropriately maintained.
- Capital and high-risk assets were properly recorded.
- Appropriate security over payments was implemented.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from Dec. 1, 2016, through Nov. 30, 2017.

Background

Texas School for the Deaf is a state-operated primary and secondary school for deaf children in Austin, Texas. The oldest public school in Texas that has been continually in operation, it was first opened in 1857 in an old frame house, three log cabins, and a smokehouse. In 1951, the State Board of Education assumed oversight of the school.

**Texas School for the Deaf
website**



<https://www.tsd.state.tx.us/>

Audit Results

The School generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with travel, payment card, grants or contracts. However, the School should consider making improvements to its payroll, payment processes and internal control structure processes.

The auditors reissued two findings from the last audit conducted at the School related to payroll and internal control structure. Auditors originally issued these findings in August 2013. An overview of audit results is presented in the following table.

Table Summary

Area	Audit Question	Results	Rating
<u>Payroll Transactions</u>	Did payroll transactions comply with the GAA, pertinent statutes and Comptroller requirements?	 Four employees had incorrect state effective service dates, resulting in longevity underpayments.	Compliant, Findings Issued
Travel Transactions	Did travel transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Payment Card Transactions	Did payment card transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Contract Transactions	Did contract transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Grant Transactions	Did the grant payments comply with the state laws and regulations pertaining to grants and other pertinent statutes?	No issues	Fully Compliant
Security	Did all system access over payment comply with all the Comptroller security guidelines?	No issues	Fully Compliant
<u>Internal Control Structure</u>	Are internal control systems established to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	 Four employees had overlapping security access. Additionally, one CTIA form was signed after the initial connect date.	Control Weakness Issues Exist
Fixed Assets	Were tested assets in their intended location and properly reported in the State Property Accounting System?	No issues	Fully Compliant



Repeat Finding



Area	Audit Question	Results	Rating
<u>Targeted Analysis</u>	Did purchase transactions comply with the GAA, pertinent statutes and Comptroller requirements?	Three duplicate payments were processed by the School during the audit period.	Compliant, Findings Issued



Repeat Finding

Key Recommendations

Auditors made several recommendations to help mitigate risk arising from control weaknesses. Key recommendations include:

- The School should 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.
- The School must implement additional controls over expenditure processing that separate each accounting task to the greatest extent possible. The School should enhance its procedures to ensure that the original Confidential Treatment of Information Acknowledgement (CTIA) form is kept on file as long as the user has access to the statewide accounting systems, plus the five-year retention period.
- The School must strengthen its procedures to identify duplicate invoices to avoid making duplicate payments to a vendor. Additionally, the School should ensure that its accounting staff reconciles invoices and payments to prevent duplicate payments.



Detailed Findings

Payroll Transactions

Auditors developed a representative sample from a group of 25 employees involving 67 payroll transactions totaling \$182,094.50 to ensure that the School complied with the GAA, the [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Additionally, a limited sample of 10 voluntary contribution transactions was audited with no exceptions identified.

An additional six employees' files identified in a prior state service payroll report outside of the sample were audited. Audit tests revealed minor instances of noncompliance for two employees, which were reported to the School in a separate management report.

Audit tests revealed the following exceptions in the payroll transactions.

Incorrect State Effective Service Date/Incorrect Longevity Payment

In a report generated outside of the payroll sample, auditors identified four employees at the School with incorrect state effective service dates. All four employees had incorrect longevity pay totaling \$5,260 in underpayments.

The School's procedures include verifying prior state service whenever an employee indicates previous state employment in an application or resume. Three employees listed prior state employment in their applications and one employee listed prior state employment on a resume. The School inadvertently failed to verify the prior state service information listed.

[34 Texas Administrative Code Section 5.40\(c\)\(2\)](#)

Quality control measures. Each state agency must ensure that its internal operating procedures include quality control measures that will detect any underpayment of compensation to a state employee.

As a result of the audit, the School verified the additional prior state service, made the required entries in the Uniform Statewide Payroll/Personnel System (USPS) and compensated the employees for the underpayments of longevity pay.

When an agency hires an employee, the agency must research whether the employee has previous state employment. If prior state employment exists, the agency must confirm the amount of lifetime service credit and properly record it, or risk underpaying longevity pay. See [Texas Payroll/Personnel Resource – Non-Salary Payments – Longevity Pay](#).



Recommendation/Requirement

The School should review its controls and personnel records to ensure accuracy and completeness, and include quality control measures that will detect and prevent any incorrect compensation to an employee. See [34 Texas Administrative Code Section 5.40\(c\)\(2\)](#).

School Response

Management agrees. The School has taken several measures to ensure that prior state service is identified and confirmed and that longevity is calculated correctly for employees. Prior state service information is provided at new hire orientation and participants are required to complete and sign a prior state service form. The School uses the electronic recruiting system Talented. A question about prior state service has been added to the application and made mandatory for all applicants prior to submitting their application.

Travel Transactions

Auditors developed a representative sample of 20 travel transactions totaling \$3,131.91 to ensure the School complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Payment Card Transactions

Auditors developed a representative sample of five payment card transactions totaling \$50,667.95 to ensure the School complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes.

Audit tests revealed a minor instance of noncompliance, which was reported to the School in a separate management report.

Contract Transactions

Auditors developed a representative sample of 13 contract transactions totaling \$87,304.18 to ensure the School complied with the GAA, [eXpendit](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Grant Transactions

Auditors developed a representative sample of four grant transactions totaling \$16,976 to ensure the School complied with the state laws and regulations pertaining to grants and other pertinent statutes. Audit tests revealed no exceptions for this group of transactions.



Security

The audit included a security review to identify any of the School's employees with security in the Uniform Statewide Accounting System (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. Audit tests revealed no security exceptions.

Internal Control Structure

The review of the School's internal control systems was limited to obtaining reports identifying current users' access. The review did not include tests of existing mitigating controls. The audit tests conducted revealed the following exceptions in user access.

Control Weakness over Expenditure Processing/CTIA Form Missing

As part of the planning process for the post-payment audit, auditors reviewed limitations that the School placed on its accounting staff's ability to process expenditures. Auditors reviewed the School's security in USAS, the Texas Identification Number System (TINS) and voucher signature cards that were in effect on May 9, 2018, and requested internal or compensating controls that the School might have relating to those systems. The School stated that it does not have any procedures to mitigate the security findings relating to USAS, TINS security or internal transaction approvals.

The School had one employee who could enter and release payment vouchers in USAS, create and update vendor profiles and direct deposit information in TINS, process/edit and release payroll in USAS, edit direct deposit information for employees in TINS, and approve paper vouchers. Additionally, the School had three employees who could enter and release payment vouchers in USAS, and process and release payrolls in USAS. Finally, the School had two employees who could pick up warrants from the Comptroller's office and approve paper vouchers. During the audit, the School sent a request in May 2018 to change the security profiles of the four employees. The School stated that these issues occurred due to limited staff availability.

Auditors ran a report to determine whether any of the School's payment documents processed through USAS during the audit period because of the action of only one individual. The report indicated that 20 USAS documents processed without electronic oversight. These documents resulted in payments totaling \$80,477.37. Auditors randomly selected and reviewed five of those documents. No issues were identified.

Auditors also reviewed the School's compliance with the requirement that all agency users of the Comptroller's statewide financial systems complete a Confidential Treatment of Information Acknowledgment (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. The agency's security coordinator keeps it on file for as long as the user has access to the systems, plus five years.

In this review, auditors identified one CTIA form signed after the individual had accessed the Comptroller's statewide financial systems. The School stated that the original CTIA form was signed over 10 years ago and was missing due to misapplication of the record retention requirements. All CTIA forms for the user have been accounted for and are in the appropriate file.

Recommendation/Requirement

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

Auditors strongly advise that the School implement the following recommendations:

1. Limit the access of users who can enter/change vouchers or release/approve batches in USAS to view-only access in TINS (PTINS02). An individual should not be able to create or change a vendor profile, create a payment, and approve the payment.
2. Limit the access of users who can process and release payroll in USAS to view-only access in TINS (PTINS02). An individual must not be able to change employee payment instructions and process and release payrolls.
3. Limit the access of users who can approve paper vouchers (by being on the signature card) to view-only access in TINS (PTINS02). An individual must not be able to change a vendor profile and approve a payment.
4. 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 \(FPP B.005\)](#).
5. Additionally, 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.



6. Work with the Comptroller's office Statewide Fiscal Systems security staff to set up user profiles that separate the entry and approval of payroll transactions in USAS or USPS.
7. Limit user access by removing the user from the Agency Authorization for Warrant Pickup list or by removing the user from the agency's signature card.
8. Enhance its procedures to ensure 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.

School Response

Management agrees. The USAS Security Coordinator now maintains both a hard copy and an electronic copy of the CTIA forms to ensure documentation is not discarded for at least five years once an employee leaves the agency. Unfortunately, as a smaller agency there are situations in which a user profile may contain full access to process transactions throughout the document lifecycle to ensure continuity of operations in the event of other employees being out of the office due to leave, vacation, sickness, etc. In an effort to maintain oversight of this possibility and to reduce risk, TSD now runs the DAFR-9840 report (the "Risky Document" report) monthly to identify transactions that may be flagged for improper segregation of duties during the processing of all transactions. Additionally, certain USAS and TINS user profiles have been amended to minimize opportunities for single user entry and approval. In the rare situation in which a single user must perform an individual entry and approval, that transaction must be reviewed by the accounting manager or CFO the next business day for written concurrence.

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 School's internal system. All assets tested were in their intended location, properly tagged, and properly recorded in the State Property Accounting system.

Targeted Analysis

Auditors developed a representative sample of reports that targeted specific purchase transactions to ensure they complied with the GAA, [eXpendit](#) and pertinent statutes. Audit tests revealed the following exception.



Duplicate Payments

In two reports generated outside the sample, auditors identified three duplicate payments processed by the School during the audit period. The amount of the duplicate payments were \$5,442.12, \$68.99 and \$21, respectively. The School agreed that the transactions were duplicate payments, and stated that the duplicate payments occurred due to employee error.

The School sought reimbursement from two vendors and received it. For the other duplicate payment, the School received a partial recovery. The School and the vendor did not have the necessary records to pursue the remaining \$54.06.

Recommendation/Requirement

The School must strengthen its procedures to identify duplicate invoices to avoid making duplicate payments to vendors. The School should ensure that its accounting staff reconciles invoices and payments to prevent duplicate payments. Additionally, the School should maintain the documentation necessary to request refunds from vendors.

School Response

Management agrees. TSD migrated from USAS (internal user, non-reporting agency) to CAPPs Financials in fall 2018 and now has increased electronic tools and visibility to minimize the likelihood of duplicate payments in the future. With the implementation of CAPPs, training of personnel to check for duplicate payments has been simplified and has resulted in increased transparency and reconciliation of financial operations. Additionally, the revenue accountant now tracks refund requests to ensure the return of overpayments is properly coded and entered into the CAPPs general ledger.



Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team

Audit Objectives

The objectives of this audit were to:

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of any of the following:
 - Uniform Statewide Accounting System (USAS),
 - The Uniform Statewide Payroll/Personnel System (USPS),
 - The Standardized Payroll/Personnel Report System (SPRS) or
 - The Human Resource Information System (HRIS).
- Verify payments are made in accordance with certain applicable state laws.
- Verify assets are in their intended locations.
- Verify assets are properly recorded for agencies and institutions of higher education that use the State Property Accounting (SPA) system.
- Verify voucher signature cards and systems security during the audit period are consistent with applicable laws, rules and other requirements.

Audit Scope

Auditors reviewed a sample of the Texas School for the Deaf (School) payroll, travel, payment card, grant and contract transactions that processed through USAS and USPS from Dec. 1, 2016, through Nov. 30, 2017, to determine compliance with applicable state laws.

The School receives appendices with the full report, including a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

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.

The audit provides a reasonable basis for the findings set forth in this report. The School should implement the recommendations listed in the Detailed Findings of this report. It is the School'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 School's documents comply in the future. The School must ensure that the findings discussed in this report are resolved.



Audit Methodology

The Expenditure Audit section uses limited sampling to conduct a post-payment audit.

Fieldwork

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based on the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcation or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what action or additional procedures would be appropriate.

Audit Authority

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

Audit Team

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Appendix 2 — Definition of Ratings

Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Noncompliant

Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented. These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Noncompliant

Repeat Finding Icon Definition



This issue was identified during the previous post-payment audit of the agency.