



An Audit of the **Employees Retirement System of Texas**

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Executive Summary

Purpose and Scope

The objectives of the Employees Retirement System of Texas (System) 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 Sept. 1, 2016, through Aug. 31, 2017.

Background

The Employees Retirement System of Texas manages benefits for employees and retirees of state of Texas agencies and some higher education institutions. The System's mission is to enhance the lives of its members by supporting members' retirement income security, sustaining competitive group benefits programs, engaging stakeholders for informed decision making, and enhancing System performance and accountability.

**Employees Retirement System
of Texas website**

<https://www.ers.texas.gov/>

Audit Results

The System generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with travel, grant, payment card, or refund of revenue transactions. However, the System should consider making improvements to its payroll processes, record retention (particularly with regard to contract procurement), reclamation of retirement overpayments, and system security and segregation of duties processes.

There were no repeat findings from the previous audit issued Feb. 21, 2014. 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, other pertinent statutes and Comptroller requirements?	One employee had incorrect service dates and corresponding errors in longevity pay.	Compliant, Findings Issued
Travel Transactions	Did travel transactions comply with all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Contracts and Payment Transactions</u>	Did contracts and payment transactions comply with all pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> • Missing documentation for five out of six contracts reviewed, limiting the scope of the audit. • Underreporting of contract information to the LBB. 	Scope Limitation
Grant Transactions	Did grant payments comply with the state laws and regulations pertaining to grants/loans and other pertinent statutes?	No issues	Fully Compliant
Payment Card Transactions	Did payment card purchase transactions comply with all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Refund of Revenue Transactions	Did refund of revenue transactions comply with all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Return of Retirement and Employee Payments</u>	Were ERS payments to employees/retirees authorized and documented?	The System did not act in a timely manner to coordinate reclamation of overpayments directly deposited into the accounts of some deceased payees.	Compliant, Findings Issued



Area	Audit Question	Results	Rating
<u>Security</u>	Did all system access to process payments comply with the Comptroller security guidelines?	<ul style="list-style-type: none">• One person retained ability to access systems three days after termination of employment.• Signed copies of the Confidential Treatment of Information Acknowledgment form not retained by security administrator.	Compliant, Findings Issued
<u>Internal Control Structure</u>	Are incompatible duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	Two employees had multiple conflicting duties.	Compliant, Findings Issued
Fixed Assets	Were tested assets in their intended location, properly tagged and properly reported in the State Property Accounting System?	No issues	Fully Compliant
<u>Targeted Analysis</u>	Did the System comply with the Comptroller requirements for payment card transactions?	<ul style="list-style-type: none">• 64 transactions did not include the correct invoice number field entries.• Nine incomplete direct deposit forms were identified.	Compliant, Findings Issued

Key Recommendations

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

- Ensure all employees' prior state service is properly confirmed and recorded to award the correct monthly longevity pay.
- Maintain a master contract file containing documentation of compliance with statewide procurement laws for each procurement and all contract-related invoices, corresponding purchase orders and documents supporting payment.



- Comply with the GAA and add the text of its contracts and requests for proposals over \$10 million to the Legislative Budget Board (LBB) online contracts database.
- Provide sufficient oversight to ensure its procedures for finding and reporting deceased payees are followed as completely as possible to avoid losing the opportunity to reclaim overpayments.
- Ensure compliance with terminated employee security revocation requirements.
- Ensure no user gains access to the statewide financial systems without signing a Confidential Treatment of Information Acknowledgment (CTIA) form. Additionally, replace missing forms with new forms and with a notation that the replacement form is being signed as a result of this expenditure audit.
- Segregate each accounting task to the greatest extent possible.
- Enhance its procedures to ensure payments for third-party transactions are processed in accordance with [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 \(FPP E.023\)](#).
- Ensure the System collects direct deposit information including intent to transfer funds outside of the United States.



Detailed Findings

Payroll Transactions

Auditors developed a representative sample of 130 payroll transactions from the Uniform Statewide Personnel/Payroll System (USPS) to ensure System compliance with the GAA, pertinent statutes and the policies contained in [Texas Payroll/Personnel Resource \(FPP F.027\)](#). Audit tests revealed one longevity payment error caused by not incorporating prior state service in an employee's record.

Lifetime service credit includes all periods of employment at Texas agencies and institutions of higher education used to determine eligibility for longevity pay.

Longevity pay is an entitlement based on total state service. It is paid each month in addition to base salary. Longevity was first authorized as an employee entitlement on Sept. 1, 1979.

Incorrect State Effective Service Date/Longevity Pay

Auditors identified one employee at the System with an incorrect state effective service date in USPS resulting in incorrect monthly longevity payments. The employee was identified in a report outside of the payroll sample that found prior state service in state payroll systems other than USPS. The employee noted prior state employment on her job application but did not receive credit for the service, resulting in a total underpayment of \$1,820 in longevity pay. The System paid the employee \$720; the remaining \$1,100 was paid by the Comptroller's office as a miscellaneous claim.

Prior state service documentation is necessary to verify employees' state effective service dates and the accuracy of longevity payments. The System's payroll policies and procedures manual includes the verification of prior state service whenever an employee indicates prior state service on the job application. The System stated that the additional service time was overlooked at the time of hire.

When an agency hires an employee, the agency must research whether the employee has previous state service. If prior state service 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 System must continue to review each employee's job application for prior state service and confirm that it has properly researched and recorded all prior state service to ensure longevity pay increases and leave accruals occur at the correct times. The System must ensure all employees receive the correct monthly longevity pay.



System Response

Human Resources has strengthened the state application review procedures for prior state service to include review by multiple staff of the application. Staff will continue to document all efforts made to verify service as well as the source. Human Resources staff will also review prior service detail listed on the application with new hires during the on-boarding. Additionally, the form used to identify and confirm prior service for new hires has been revised to include any service with state universities. Examples are included to provide additional clarity to the applicant.

Travel Transactions

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

Contract Procurement and Payment Transactions

Auditors developed a representative sample of six contracts to ensure that the System complied with the GAA, [eXpendit \(FPP I.005\)](#), the *State of Texas Procurement and Contract Management Guide* (as it existed prior to 2018) and pertinent statutes.

In 2017 the Sunset Commission issued a staff report recommending the System complete centralization of its procurement and contracting functions and improve contract monitoring policies and processes. The Sunset Commission also noted that some of the System's contracts were extremely long term (up to 32 years) and recommended the System implement contract term dates in existing contracts, except in limited circumstances, to ensure the state continues to receive best value.

The post-payment audit tests revealed the following exceptions.

Missing Contract Documentation

Four of the six contracts were missing sufficient contract, procurement and payment documentation to demonstrate compliance with statewide laws and regulations. The System's general counsel maintained the contract files, but these did not contain documentation supporting procurement planning, method determination, vendor selection, contract formation and award, or contract management processes. Procurement archives kept in separate business areas were lost due to staff turnover through the years. In addition, state record retention requirements from the early 2000s were misinterpreted, resulting in the destruction of the records after three years (see below). The few records that were available for review still contained gaps in purchase/procurement and contract management files for each contract. For example:



- Three contracts lacked proof of advertisement on the Electronic State Business Daily and the state Centralized Master Bidders List.
- Two contracts lacked proposal evaluation and scoring records.
- Four contracts lacked or contained incomplete records of contractor vetting agencies must perform before contract signing.
- Two contracts lacked payment records older than three years since these were mistakenly destroyed under the accounts payable record retention schedule and not retained with the contract records.

The above is not a comprehensive list of all the missing documentation of compliance with state laws. These are only some of the procurement cycle documents that are required to be retained. Due to the missing documents, it was impossible for auditors to objectively evaluate compliance with state contracting laws.

The files must establish and itemize the oversight authority to contract and the plan to do so, proof of a proper acquisition course of action, testimony of the monitoring of the vendor and the plan performance effectiveness, and evidence of the compliance test results. According to the [State of Texas Procurement and Contract Management Guide](#) – Contract Management – Records Retention, the creation and care of detailed files provide adequate logs for the contract developer and manager to ensure optimal performance. They also satisfy record retention requirements for the agency.

Because the contracts selected began as many as 19 years ago, auditors looked to historical records retention requirements. The earliest applicable retention schedule regarding these contracts that was available from the Texas State Library was the [Texas State Records Retention Schedule \(RRS\), 3rd edition, \(2007\)](#). The RRS lists how long agencies must retain each type of official record before disposal. Contracts and leases in the RRS include affidavits of publication of calls for bids, accepted bids, performance bonds, contracts, purchase orders, inspection reports, and correspondence. These, along with the complete contract, were required to be kept four years past the end of the contract term. In a separate part of the RRS, procurement bid documentation, including bid tabulations and proposal evaluations, was required to be kept until three years past the end of the fiscal year it was created. However, if the bid documentation became part of a successful procurement and a contract was awarded, the supporting documentation was required to be kept with the contract until four years past the end of the contract term. By 2013, the System's own records retention schedule shows contracts and leases were required to be kept seven years past the end of the contract, and bid documentation four years past the end of the contract. This length of contract document retention became codified in [Texas Government Code, Section 441.1855](#) in 2015.



Recommendation/Requirement

The System must continue to comply with the recommendations of the Sunset Advisory Commission's 2017 staff report to centralize its contract management and implement contract management policies and procedures, including re-procuring the existing contracts within a reasonable time to allow for the creation of appropriate contract records.

The System must maintain contract and procurement files containing documentation of compliance with statewide procurement laws for each project it undertakes. Contract documents stored in various parts of the agency must be centralized to allow the assigned staff to organize a transparent, structured, fair and competitive acquisition plan (CAP), as well as implement sound contract development and management control measures to ensure full compliance with all applicable statutes and all-inclusive satisfaction of the parties' expectations. The procurement file should include a documentation trail that tracks clearly defined procedures, criteria, dates and goals in accordance with the requirements set by the [*State of Texas Procurement and Contract Management Guide*](#), along with a list of all members of the planning, evaluation and award teams and their specific authority levels, functions and responsibilities. The purpose is to build the most effective step-by-step method which will result in the selection of the most qualified vendor offering the best-valued choice in the market. Such effort must be strictly aligned with the expectations set forth by the documented deliverables and milestones designed by the System's experts on the subject matter.

In addition, the System's contract manager must maintain a master contract file. The System must retain all contract related invoices, corresponding purchase orders, evidence of the receipt of goods or the completion of services, and documents supporting payment with the obligatory content. An example of tools to be included in a master contract file is provided in the [*State of Texas Procurement and Contract Management Guide*](#), Appendix 26.

System Response

ERS appreciates the Comptroller's recommendations and, as suggested by the Comptroller, ERS will continue to comply with the recommendations of the Sunset Advisory Commission. ERS agrees with the Comptroller's finding that some of the documentation relating to the six audited contracts was missing from the procurement files. Some older documentation relating to the initial procurements was missing for four of the audited contracts. As noted in the report, "the contracts selected began as many as 19 years ago." Each of the six audited contracts was procured prior to the formation of ERS' Office of Procurement and other efforts to improve contract process management.



ERS feels confident that the Comptroller would find complete contract documentation relating to contracts procured since these significant changes at ERS. ERS has taken the recommendations from the State Auditor's Office and the Sunset Advisory Commission in designing the new process and structure.

ERS continues to improve its procurement processes and the method for storing its contract files. Finance has modified its retention records process to ensure payment vouchers related to contracts are retained for seven years subsequent to the end of the contracts. ERS is currently procuring a system to centralize its contracting documents. The Statement of Work to procure this system will be submitted to the Department of Information Resources for review and approval this summer. The plan is have this system procured and then implemented by the Spring of 2020.

Insufficient Documentation to Legislative Budget Board

Two of the contracts exceeded \$10 million, triggering reporting requirements of Article IX, Section 7.12 of the 2018–19 GAA. The LBB online database contains entries for both contracts with attestation letters attached addressing Article IX, Section 7.12 and the System's specific appropriations rider (Rider 13). The System had not submitted the contracts or request for proposals along with the attestation letter as required by Section 7.12.

Article IX, Section 7.12(d)(1) requires agencies to submit copies of all contract documents, including appendices and attachments, and requests for proposals, invitations to bid, or comparable solicitations. Without publication of the contract and its request for proposal, it is difficult for the public to discover details such as the value and terms of multi-million dollar agreements between the System and its vendors.

The System stated that it had attempted in good faith to comply with LBB contract reporting requirements by following Rider 13, which it believed would also satisfy Article IX, Section 7.12. The LBB clarified that while both Rider 13 and Section 7.12 do apply simultaneously, Section 7.12 also requires the System to submit a copy of the contract, appendices, attachments, and the request for proposal to the LBB online database. The System agreed to comply with the LBB interpretation of the two appropriations act riders, and has published the contracts on the LBB website.

Recommendation/Requirement

The System must comply with the GAA and add the text of its contracts and requests for proposals over \$10 million to the LBB online contracts database.



System Response

As noted in the report, ERS has always made a good-faith effort to comply with the Legislative Budget Board's reporting requirements. Due to differences in the ERS specific budget riders, ERS believed that it was not subject to certain Article IX reporting requirements relating to the posting of contractual documents. Representatives from the Legislative Budget Board, the Comptroller, and ERS met on June 6, 2018 to discuss ERS' interpretation of the riders. Following the meeting, ERS began immediately complying with these reporting requirements. ERS has now submitted to the Legislative Budget Board the contractual documents for each of the audited contracts subject to this requirement. ERS continues to diligently work with its vendors to ensure full compliance. To clarify ERS specific riders, ERS submitted revision requests in its Legislative Appropriation Request which were adopted during the legislative session.

Grant Transactions

Auditors developed a representative sample of 10 grant transactions to ensure that the System complied with the state laws and regulations pertaining to grant/loans and other pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Payment Card Transactions

Auditors developed a representative sample of 25 payment card transactions to ensure that the System complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Refund of Revenue Transactions

Auditors developed a representative sample of 10 insurance premium refund transactions to ensure the transactions were supported by appropriate documentation and complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Return of Employee and Retiree Payments

Auditors developed a representative sample of 10 retirement employee payments and returns. Audit tests revealed all 10 were valid and supported by appropriate documentation. Auditors noted the following failures to reclaim some monthly direct deposits.



Reclamation of Direct Deposits to Deceased Retirees Not Recouped Timely

Auditors discovered five instances when the System failed to reclaim monthly direct deposits made to deceased payees. The System recently implemented additional procedures along with current ones already performed to discover state retirement and insurance beneficiaries who had died and continued to receive payments. On the first round the System identified five previously undetected deaths. The estates had been mistakenly paid over \$201,000 over several years. Banking industry rules allow five business days after discovery of a payee's death to request or "reclaim" direct deposits made to the payee's account. The System verified and reclaimed the August payments, but waited for verification from the Comptroller's office for archived payment information no longer visible on the Uniform Statewide Accounting System (USAS). The wait left insufficient time for the System and the Comptroller's office to coordinate a request to the banks. The System proceeded to request the Comptroller's office to issue demand letters to the estates of the deceased payees. One of the estates refunded all of its overpayments, one was referred to the System's general counsel for investigation of possible fraud, and three remain uncollected. The System acknowledged it could have claimed more payments (those that were visible in USAS at the time) if death match, reporting and reclamation procedures already in place had been followed. The System temporarily transferred the process to its Quality Assurance Team for further study and improvement, and promised to add notation to the process to follow its steps without deviation.

Recommendation/Requirement

The System must provide sufficient oversight to ensure its procedures for finding and reporting deceased payees are followed as completely as possible to avoid losing the opportunity to reclaim overpayments.

System Response

To assure timely reclamations, ERS processes include reviewing reported deaths to determine if an annuity payment was made the month after the date of death was reported or received by ERS. If the analyst determines an overpayment was made, the Form 74-226 is submitted to the CPA to begin the bank reclamation process. The untimely reclamations noted in the report were due to a processing error made by a new employee. As of the date noted above, our procedures regarding how we process bank reclamations did not change, but the processing of all bank reclamations was moved to the senior analysts in the Customer Benefits Quality Assurance (QA) team.



Security

Failure to Timely Request Security Access Removal

During the audit period, the System did not submit a request to the Comptroller's office in time to remove one employee's USAS security to electronically approve expenditures. The request must be sent on or before the effective date of an employee's termination or revocation. In this case, the security request was sent three days late.

When an employee's authority to approve an agency's expenditures is revoked for any reason, the employee's 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. See [34 Texas Administrative Code Section 5.61\(k\)\(5\)\(A\)-\(B\)](#).

Recommendation/Requirement

The System must ensure compliance with the security revocation requirements for terminated employees. It must also ensure that the person responsible for sending the termination notifications to the Comptroller's office is aware of the employee's termination date and follows up with the Comptroller's office to ensure receipt of the notification and that the revocation occurred.

System Response

Upon termination or transfer, Human Resources sends out a notification to applicable divisions which triggers a task for EMS to check the employee's access to USAS. If the employee has access, a request is sent to the Comptroller of Public Accounts (Comptroller's Office) electronically to remove access. The actual removal of access to USAS is performed by the Comptroller's Office. ERS performs a review every six months of all accounts and provides the Comptroller's Office with documentation certifying that ERS has validated the accounts.

Missing Confidentiality Acknowledgment Forms

Auditors developed a sample of eight employees with access to Comptroller statewide financial systems to determine whether they had signed Confidential Treatment of Information Agreement (CTIA) forms. The System had only retained records of the acknowledgment of two of the eight employees. A third had signed a form several years after the date of first access to Comptroller statewide financial systems. The remaining five CTIA forms requested by auditors had not been retained. The System stated this was due to a misunderstanding about whether the System or the Comptroller's office should have retained the signed forms. The Comptroller's office does not keep signed CTIA forms for any agency other than the Comptroller's office. See [Access Requirements for Comptroller Systems \(FPP K.015\)](#).



Recommendation/Requirement

The System should revise its current 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. Auditors recommend filing the original CTIA form in each employee's personnel file and keeping a copy with the security coordinator. Current employees with access who do not have a CTIA form on file should sign a new form with a notation that the replacement form is being signed as a result of this expenditure audit.

System Response

ERS modified its procedures in 2017 to retain the CTIA on file with the security coordinator for any new users or user modification requests. The audit identified a pre-2017 account for which a copy was not retained by ERS. A CTIA was completed for the account in February 2019. No additional accounts have been identified with a missing CTIA based on an internal review.

Internal Control Structure

As part of the planning process for the post-payment audit, auditors reviewed certain limitations that the System placed on its accounting staff's ability to process expenditures. Auditors reviewed the System's security in USAS, USPS, Texas Identification Number System (TINS) and voucher signature cards. The System did not identify compensating controls that the System may have relating to USAS, USPS or TINS security or internal transaction approvals.

Control Weakness over Expenditure Processing

The System had two employees who could process and release payroll in USPS without oversight, and one employee who could approve paper and electronic vouchers in USAS and adjust payment instructions in TINS. To reduce risks to state funds, agencies should have controls over expenditure processing that segregate each accounting task to the greatest extent possible. Ideally, no individual should be able to process transactions within the statewide systems without another person's involvement. The System was provided with a schedule of this finding during fieldwork.

Auditors also ran a report to see whether any of the System's payment documents were processed through USAS during the audit period because of the action of only one person. No issues were identified.



Recommendation/Requirement

To reduce risks to state funds, agencies should 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 Comptroller's office strongly recommends that the System implement the following recommendations:

1. Work with Comptroller's Statewide Fiscal Systems security staff to set up user profiles that separate the entry and approval of payroll transactions in USPS.
2. Limit the access of users who can approve paper vouchers (by being on the signature card) and release payments in USAS to view-only access in TINS (PTINS02). An individual must not be able to change a vendor/employee profile or direct deposit information and approve a payment.

System Response

ERS has worked with the Comptroller's Office to restrict employees who can approve payroll transactions in USPS from also being able to process payroll transactions. ERS has also worked with the Comptroller's Office to update user profiles for those who can approve paper vouchers/payments from being able to change a vendor/employee profile or direct deposit information. Additionally, by the end of June, Finance will have completed development of a standard operating procedure clearly delineating security access to USAS, USPS, and TINS based on roles and responsibilities, which will be used by FSS staff in its review of USAS and USPS employee access and update of signature cards.

Fixed Assets

Auditors developed a representative sample of 12 items of state property to determine whether each could be found in the correct location with the correct custodian according to its records, whether it was correctly tagged, and whether its purchase was supported by appropriate documentation. Audit tests revealed no exceptions for this group of transactions.

Targeted Analysis

Auditors ran a separate report covering all payment card transactions in the audit period to identify transactions processed and reported incorrectly to the credit card vendor. Auditor tests revealed the following exception.



Invalid Invoice Number Field Entries

In the payment card report, auditors identified 64 transactions in two USAS documents totaling \$25,376.58 that were processed incorrectly. The System did not provide the correct entry into the invoice number field 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 may not be able to post payments directly to the System's procurement and travel card accounts; this may cause unidentified and delayed payment postings and potential lost rebate earnings.

Recommendation/Requirement

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

System Response

All accounts payable staff have been trained on processing third-party transactions including correct entry into the invoice field to ensure vendor numbers are entered appropriately. Review procedures have been updated to include a detailed review of the invoice number field in accordance with FPP A.043 and FPP E.023.

Incomplete Direct Deposit Authorization Form

Auditors reviewed the System's procedures to comply with the federal mandate to properly identify and handle payments involving the international transfer of funds.

[The Office of Foreign Assets Control \(OFAC\)](#) requires that all direct deposit payments transmitted outside the United States be identified and monitored. To avoid potential federal penalties, each state agency must:

- Show due diligence in the processing of all direct deposit payments.
- When possible, ensure direct deposit payments it issues to accounts at U.S. financial institutions are not ultimately being transferred to financial institutions outside of the United States.

Of the 10 benefit payment recipients (annuitants) selected and reviewed, only one had the correct direct deposit form on file. The remaining nine had set up direct deposit instructions online through the System's existing portal, which did not ask whether payments would be transferred out of the United States.



International Automated Clearing House transactions (IAT) are payments destined for a financial institution outside of the United States. The Comptroller's office does not participate in IATs. If a payee informs an agency that a payment is destined for a financial institution outside of the United States, then the agency may not set up that payee for direct deposit.

Without a current and properly completed form on file, the System is unable to properly follow the direct deposit requirements.

Recommendation/Requirement

The System has taken steps to correct the online direct deposit setup portal and include the question about IAT. The System submitted an internal system change request to remedy the issue during the audit, and must complete the modification and ensure it collects the missing information. Further, the System must contact current users of direct deposit and require them to update their information indicating whether or not their payments are destined for institutions outside the United States.

System Response

Upon attending an off-site Comptroller of Public Accounts training, ERS learned that a question should be posed relating to moving money to a foreign financial institution when completing a direct deposit update. After further review, we determined that a system change was required. Procedures were updated and communicated to staff to pose the question during direct deposit update interactions with members as of March 2018. In addition, we are determining if system changes are required to comply with federal law. Customer Benefits will evaluate other direct deposits prior to March 2018 to assess risk and determine next steps.



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),
 - Uniform Statewide Payroll/Personnel System (USPS),
 - Standardized Payroll/Personnel Report System (SPRS) or
 - 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 Employees Retirement System of Texas (System) payroll, travel, purchase and procurement transactions that processed through USAS and USPS from Sept. 1, 2016, through Aug. 31, 2017, to determine compliance with applicable state laws.

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

Derik Montique, MBA, CFE, CGFM, CTP

Alberto Lañas, MBA, CTPM

Scott Coombes, CIA, CISA

Akeem Tory, CIA



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
Restrictions on auditor's ability to obtain sufficient evidence to complete all aspects of the audit process. Causes of restriction include but are not limited to: <ul style="list-style-type: none">Lack of appropriate and sufficient evidentiary matter.Restrictions on information provided to auditor.Destruction of records.	Scope Limitation

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.