



# An Audit of the Texas Comptroller of Public Accounts – State Fiscal

Audit Report # 902-21-01  
**February 24, 2022**

**Glenn Hegar**  
Texas Comptroller of Public Accounts







# Table of Contents

## Executive Summary

Purpose and Scope.....	1
Background.....	1
Audit Results.....	1
Key Recommendations .....	2

## Detailed Findings

Purchase Transactions .....	3
Grant Transactions .....	3
Refund Transactions.....	3
Interfund Transfer/Trust Transactions .....	3
Internal Control Structure .....	3
Security .....	4
Targeted Analysis .....	4
Loss to the Rebate Payment Card Program.....	4
Duplicate Payment/Warrant Hold and Replacement Requirements Not Followed .....	5

## Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team.....	7
Appendix 2 — Definition of Ratings .....	9



# Executive Summary

## Purpose and Scope

The objectives of this audit were to determine whether Texas Comptroller of Public Accounts – State Fiscal (State Fiscal):

- Processed purchase/interest, grant, refund and interfund transfer payments according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Maintained documentation to support those payments.
- Implemented appropriate security over payments.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from Sept. 1, 2019, through Aug. 31, 2020.

## Background

State Fiscal's functions are set up to be used by the Comptroller's office to facilitate the mechanics of issuing warrants for special purposes as defined by the Legislature (i.e., payments in lieu of taxes on university lands, small claims, etc.) and may also be used for allocation and distribution purposes.

***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.***

## Audit Results

State Fiscal largely complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors did not select any contracts for review and did not audit any procurement-related activity such as procurement planning, procurement method determination, vendor selection, contract formation and award, or contract management to avoid duplication of efforts with the Comptroller's office Internal Audit Division's current audit of procurement and contracts activities. Auditors found no issues with purchase/interest, grant, revenue refund or interfund transfer/trust transactions. However, State Fiscal should consider making improvements to its processes regarding Citibank credit card rebates and duplicate payments.

Auditors did not reissue any findings from the prior audit, which was issued in January 2017. An overview of audit results is presented in the following table.

## Table Summary

Area	Audit Question	Results	Rating
Purchase/ Interest Transactions	Did purchase and interest transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Grant Transactions	Did grant transactions comply with the GAA and state laws and regulations pertaining to grants?	No issues	Fully Compliant
Revenue Refund Transactions	Did revenue refund transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Interfund Transfer/Trust Transactions	Did interfund transfer/trust transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Internal Control Structure	Are duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	No issues	Fully Compliant
Security	Are State Fiscal employees who are no longer employed or whose security was revoked properly communicated to the Comptroller's office?	No issues	Fully Compliant
<u>Target Analysis Reports</u>	Did State Fiscal comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> <li>• Loss to the rebate payment card program.</li> <li>• Duplicate payment/warrant hold and replacement requirements not followed.</li> </ul>	Compliant, Findings Issued

## Key Recommendations

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

- State Fiscal should change its payment processes to comply with Citi Commercial Card requirements, take advantage of rebates and avoid the double penalty of lost rebates and late interest payments.
- State Fiscal must strengthen its procedures to identify duplicate invoices to avoid making duplicate payments. Additionally, the agency must develop procedures to verify warrant hold status before making payments and to ensure compliance with warrant hold check and warrant cancellation statutes when applicable.





# Detailed Findings

## Purchase Transactions

Auditors developed a sample of 40 purchase and 10 interest transactions totaling \$18,533,085.94 to ensure State Fiscal complied with the GAA, [eXpendit \(FPP I.005\)](#) and pertinent statutes. Audit tests revealed no exceptions in these transactions.

Auditors did not select any contracts for review and did not audit any procurement-related activity to avoid duplication of efforts with the internal audit division.

## Grant Transactions

Auditors conducted a limited review of State Fiscal's transactions relating to grant payments. The review consisted of verifying that payments did not exceed authorized amounts, but did not include an investigation of State Fiscal's procedures for awarding grants or monitoring payments made to the payees, so auditors will offer no opinion on those procedures. Auditors reviewed four transactions totaling \$22,368,587.06. Audit tests revealed no exceptions in these transactions.

## Refund Transactions

Auditors developed a sample of 30 refund transactions totaling \$25,579,190.65 to ensure the transactions were supported by appropriate documentation and complied with the GAA, [eXpendit \(FPP I.005\)](#) and pertinent statutes. Audit tests revealed no exceptions in these transactions.

## Interfund Transfer/Trust Transactions

Auditors developed a sample of 10 interfund transfer/trust transactions totaling \$73,605,849.49 to ensure the transactions were supported by appropriate documentation and complied with the GAA, [eXpendit \(FPP I.005\)](#) and pertinent statutes. Audit tests revealed no exceptions in these transactions.

## Internal Control Structure

The review of State Fiscal's internal control structure was limited to obtaining reports identifying current users' access. The review did not include tests of existing mitigating controls. The audit tests conducted revealed no exceptions in user access.



## Security

The audit included a security review to identify State Fiscal employees with security in USAS or on the voucher signature cards who were no longer employed or whose security had been revoked. At termination or revocation, certain deadlines must be met so that security can be revoked in a timely manner. Audit tests revealed no exceptions.

## Targeted Analysis

The audit included a review of various special reports generated for State Fiscal outside the sample. Audit tests revealed the following exceptions.

### Loss to the Rebate Payment Card Program

State Fiscal is not in compliance with the early payment discount/rebate requirements for state agencies and institutions of higher education because it failed to take advantage of early discounts/rebates offered by the payment card vendor. State Fiscal stated the current process was designed to ensure a vigorous auditing process to prevent the misuse of state funds and verify that any questionable, disputable and/or fraudulent charges are resolved before payment is made. State Fiscal is currently reviewing and revising its business process, if applicable, to take advantage of future potential rebate offerings.

In a report generated outside of the payment card sample, auditors reviewed all Citibank (Citi) payments processed in USAS during the audit period as part of the payment card rebate program. Auditors identified late payments resulting in interest payments to the vendor and lost discounts/rebates to the state.

Citi Charge Card contract [946-M2](#) contains a rebate program based on the total annual expenditures of all participating entities. In addition to the rebate percentage, an early payment incentive increases for each day a payment is received in full before 30 days from Citi's statement/invoice date. Statements are issued on the third of every month and are available to the agencies the next day, the fourth. Both the prompt payment date and the discount rebate date start the day after the statement/invoice is available on Citi's website. Additionally, since charge-offs for delinquent accounts are deducted from the rebate as credit losses at the rebate-payable level, agencies should pay account balances as quickly as possible.

Citi currently pays a base rebate of 1.93 percent on payments received 30 days after the statement date, which increases by .75 basis points for each day a payment is processed before 30 days from the statement date. At 31 or more days from the statement date, no rebate is paid. Rebates accrue from the first dollar of spend on all card products including Virtual Card and ePayables (excluding individual bill).



State Fiscal did not take advantage of the discounts offered by Citi and paid the invoice an average of 46 days after the statement date. By not taking advantage of the rebates, agencies and institutions of higher education hinder the State Procurement Division's ability to negotiate rebates on future contracts.

According to [Texas Government Code, Section 2251.030](#), the Legislature expects government entities to take advantage of early payment discounts, so agencies should submit payment documents to the Comptroller's office in time to do so.

## Recommendation/Requirement

Changing the payment processes is needed to comply with requirements, and to take advantage of rebates and avoid the double penalty of lost rebates and late interest payment. The following should be considered:

- Receiving the Citi Commercial Card account statements online. Online account statements are available 48 hours from the statement date.
- Working with Citibank to develop automated reconciliation for travel and purchase receipts as transactions occur or shortly after each statement is issued.
- Making partial payments based on supporting documentation received and reconcile and pay as costs arise.

## State Fiscal Response

*The Accounts Payable Section (Section) receives the account statements online and our cardholders utilize the statements to complete their reconciliation. The Section will review its current policies and procedures for the monthly P-card reconciliation process and revise those procedures, if applicable, to allow the agency to take advantage of the Citibank rebate program without compromising the accuracy of the P-card auditing function. The Section will continue to collaborate with external stakeholders to ensure the timely development and submission of accurate requisitions for payment processing.*

## Duplicate Payment/Warrant Hold and Replacement Requirements Not Followed

In a report generated outside the sample, auditors identified one duplicate payment for \$6,470.50 that State Fiscal processed during the audit period.

Unclaimed Property and Revenue Accounting staff issued a duplicate payment for \$6,470.50. The claimant had an outstanding liability with the Texas Workforce Commission (TWC), so the original \$6,470.50 warrant from Unclaimed Property was held. The claimant's TWC liability was offset for the amount of the hold, \$268, and a new warrant for the difference of \$6,202.50 was issued on Feb. 4, 2020. The claimant contacted Unclaimed Property and stated that he had not received his warrant.



In response, Unclaimed Property submitted a cancel/reissue request to Revenue Accounting for the full amount. Revenue Accounting canceled the original warrant for \$6,202.50 in the Unclaimed Property system. This allowed Unclaimed Property to reissue a new warrant for the original amount of \$6,470.50. Auditors discovered this was a duplicate payment and that the claimant had cashed both checks. On May 25, 2021, the claimant reimbursed the Comptroller's office for the overpayment.

In responding to the claim that the check for \$6,202.50 was not received, Unclaimed Property overlooked the warrant hold status and processed a replacement payment for the full amount. Additionally, when cancelling the check for \$6,202.50, Revenue Accounting staff failed to follow the Comptroller's warrant policy for replacement warrants.

The paying agency must check the warrant hold status of the payee before initiating a warrant. Although payments made through the Uniform Statewide Accounting System (USAS) are automatically checked for holds and the system identifies payments issued to people with outstanding state debt, this does not relieve an agency from conducting the warrant hold status in accordance with [Texas Government Code, Section 403.055](#).

Warrants that have been reported as lost, stolen or forged require a warrant cancellation by the paying agency so a replacement can be issued. To comply with [Texas Government Code, Section 403.054](#) and [34 Texas Administrative Code Section 5.140](#), a replacement warrant may be issued as a warrant or a direct deposit payment to avoid the risk of another lost, stolen or forged warrant.

## Recommendation/Requirement

---

State Fiscal must strengthen its procedures to identify duplicate invoices and avoid duplicate payments. It must also develop procedures to verify warrant hold status before making payments and to ensure compliance with the warrant hold check and warrant cancellation statutes when applicable.

## State Fiscal Response

---

*Both divisions have revised applicable procedures and reviewed those procedures with staff. Revenue Accounting implemented a new quality control check for canceling held warrants on May 7, 2021.*





# 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 Reporting System (SPRS),
  - Human Resource Information System (HRIS) or
  - The Centralized Accounting and Payroll/Personnel System (CAPPS).
- 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 Comptroller of Public Accounts – State Fiscal (State Fiscal) purchase/interest, grant, revenue refund, and interfund transfer/trust transactions that processed through USAS from Sept. 1, 2019, through Aug. 31, 2020, to determine compliance with applicable state laws.

State Fiscal received 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.

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



## **Audit Methodology**

The Expenditure Audit section uses limited sampling to conduct a post-payment audit, and relies on professional judgment to select areas the auditor considers high risk.

## **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 Disclosure**

Comptroller – State Fiscal and the post-payment auditors are under the same supervisory structure at the Comptroller's office.

## **Audit Team**

*Angelica Villafuerte, CGAP, CTCD, Lead Auditor*

*Melissa A. Hernandez, CTCD, CTCM*

*Monica R. Garcia, CTCD*



## 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"><li>• Lack of appropriate and sufficient evidentiary matter.</li><li>• Restrictions on information provided to auditor.</li><li>• Destruction of records.</li></ul>	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.