# An Audit of the State Securities Board

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# Executive Summary

## Purpose and Scope

The objectives of this audit were to determine whether the State Securities Board (Board):

- Procured contracts according to applicable state laws and Comptroller requirements.
- Processed payments according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Maintained documentation to support those payments.
- Properly recorded capital and high-risk assets.
- 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, 2020, through Aug. 31, 2021.

## Background

The mission of the State Securities Board is to protect Texas investors. The agency seeks to ensure a free and competitive securities market for Texas, increase investor confidence, and encourage the formation of capital and the creation of new jobs. Overseen by a board of five members who are appointed by the governor, the agency is made up of the Enforcement, Registration, Inspections and Compliance, General Counsel, and Staff Services Divisions.

**State Securities Board website**
https://www.ssb.texas.gov/

## Audit Results

The Board largely complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with refunds of revenue, security or property management. However, the Board should consider making improvements to its payroll, purchase/procurement, travel and internal control structure processes.

Auditors reissued one finding from the previous audit related to internal control structure. Auditors originally issued this finding in December 2014. An overview of audit results is presented in the following table.

# Table Summary

| Area | Audit Question | Results | Rating |
|---|---|---|---|
| Payroll Transactions | Did payroll transactions comply with the GAA, pertinent statutes and Comptroller requirements? | Incorrect state effective service date/incorrect longevity payment | Compliant, Findings Issued |
| Purchase and Contract Transactions | Did purchase, payment card and contract transactions comply with the GAA, pertinent statutes and Comptroller requirements? | • Missing contract planning and contract management documentation.<br>• Missing ESBD solicitation and notice of award postings.<br>• Missing proof of CMBL search.<br>• Missing proof of vendor compliance verification checks.<br>• LBB contract reporting omission.<br>• Failure to report to the VPTS. | Compliant, Findings Issued |
| Travel Transactions | Did travel and travel card transactions comply with the GAA, pertinent statutes and Comptroller requirements? | • State travel card not used for airfare.<br>• Missing documentation of advance approval for out-of-state travel. | Compliant, Findings Issued |
| Refund of Revenue Transactions | Did refund of revenue transactions comply with the GAA, pertinent statutes and Comptroller requirements? | No issues | Fully Compliant |
| Fixed Assets | Were tested assets in their intended locations and properly reported in the State Property Accounting system? | No issues | Fully Compliant |

Repeat Finding

| Area | Audit Question | Results | Rating |
|---|---|---|---|
| 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? | Control weakness over expenditure processing | Control Weakness Issues Exist |
| Security | Are Board employees who are no longer employed or whose security was revoked properly communicated to the Comptroller's office? | No issues | Fully Compliant |

Repeat Finding

## Key Recommendations

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

- Review employee job applications and internal employment history forms to check for prior state service and confirm any previous service is properly recorded to ensure longevity pay increases and leave accruals occur at the correct times.
- Improve contracting and purchase/procurement planning processes to ensure they meet applicable requirements.
- Ensure any contract over $25,000 is posted on the Electronic State Business Daily (ESBD) for the proper duration and posted documentation is maintained in the contract file.
- Use and document the Centralized Master Bidders List for all purchases, unless specifically exempted.
- Ensure staff performs all applicable vendor compliance verifications, documents the verifications for every procurement, and retains proof as part of the procurement files.
- Report contract awards to the Legislative Budget Board (LBB) and report completed contracts to the Vendor Performance Tracking System (VPTS).
- Ensure all airfare is charged to the state-issued travel credit card.
- Document the advance approval for out-of-state travel.
- Maintain controls over expenditure processing that segregate each accounting task to the greatest extent possible.

# Detailed Findings

## Payroll Transactions

Auditors developed a sample totaling $397,780.47 from a group of 25 employees and 87 payroll transactions to ensure the Board complied with the GAA, **Texas Payroll/ Personnel Resource (FPP F.027)** and pertinent statutes. Audit tests revealed the following exception in this group of transactions. Auditors also reviewed a limited sample of five voluntary contribution transactions with no exceptions identified.

### Incorrect State Effective Service Date/Incorrect Longevity Payment

In the review of the payroll transactions, auditors identified one employee with missing prior state service verification. The employee listed prior state service on the job application but did not list it on the Board's employment history form. The Board relied on the employment history form and did not review the application; as a result, it missed the employee's time at an institution of higher education. This oversight resulted in an underpayment of longevity to the employee.

During the audit, the Board conducted the prior state service verification for the employee, provided the auditor with the required documentation to validate the longevity pay amounts, updated the Uniform Statewide Payroll/Personnel System (USPS) employee record, and began the process of compensating the employee for the underpayment.

When an agency hires an employee, the agency must research and document whether the employee has prior state service. See **Texas Payroll/Personnel Resource – General Provisions – Required Documentation**. If there is prior state employment, the agency must confirm and properly record the amount of lifetime service credit. If the agency fails to verify an employee's prior state service, the lifetime service credit for longevity will be based on the employment date at the new agency and the eligible employee might be underpaid longevity pay. See **Texas Payroll/Personnel Resource – Non-Salary Payments – Longevity Pay**.

#### Recommendation/Requirement

The Board must continue to research and verify prior state service time for its employees. In addition, the Board must ensure all prior state service verifications are properly documented, accurate and maintained in the personnel files. The Board must also compensate the employee for the underpaid amount.

## Board Response

*The employee in question to whom funds were owed was compensated for all underpaid longevity on Aug. 1, 2022. Going forward, all employee employment applications will be thoroughly reviewed for prior state service that may be eligible for service credit. Staff will continue the current practice of verifying prior state service on the Comptroller's State of Texas Employment History portal and utilizing the onboarding employment history form new hires currently complete upon hire. To ensure that new employees accurately report service credit on their onboarding employment history form, they will be provided with clear written and verbal instruction to report service with both state agencies and universities at the time they are given the form.*

*Commissioner Note – The one employee in question neglected to report prior state service to employer on the employment history form as part of the new hire onboarding process.*

# Purchase/Procurement and Contract Transactions

Auditors developed a sample of 20 purchase transactions totaling $68,951.36, as well as 21 transactions totaling $30,920 from one vendor contract, to ensure the Board complied with the GAA, **eXpendit (FPP I.005)**, the ***State of Texas Procurement and Contract Management Guide*** and pertinent statutes. Audit tests revealed multiple exceptions for this group of transactions.

| Contract | Amount | Type of Service | Procurement Cycle | | | | |
|---|---|---|---|---|---|---|---|
| | | | Planning | Procurement Method Determination | Vendor Selection | Contract Formation/ Award | Contract Management |
| Contract A | $125,000 | Internal Audit Services | Missing contract planning and contract management documentation | • Missing ESBD solicitation posting.<br>• Missing proof of CMBL search. | No exceptions | • Missing proof of vendor compliance verifications.<br>• LBB contract reporting omission.<br>• Missing ESBD notice of award posting. | Failure to report to VPTS |

## Missing Contract Planning and Contract Management Documentation

The internal audit services contract lacked the required planning documentation, such as a contract review team list, a needs assessment, a risk management analysis, a contract administration plan (CAP or acquisition plan) for the whole lifespan of the agreement (including all its expressed potential extensions or renewals), a contract manager's quality assessment plan (QAP) and a master contract file checklist. Staff

must document each step and retain documentation in the contract file. See the ***State of Texas Procurement and Contract Management Guide*** – Solicitation – Receipt and Control of Responses. The acquisition plan and other planning documents discussed above ensure the procurement is solicited, negotiated, executed, monitored and managed in a way that delivers the best value to the agency and the state. It also ensures timely delivery of the goods or services, protects the financial interests of the agency, and safeguards the impartiality, transparency and competitiveness of the bidding process. The QAP helps the contract manager assess risk and monitor deliverables and milestones after contract execution. See the ***State of Texas Procurement and Contract Management Guide*** – Procurement Planning and Contract Management sections for best business practices.

Additionally, the Board inaccurately estimated the total value of the contract. The Board estimated an annual expenditure over a five-year period, as opposed to lumping all of the five years together in a one total sum, including every renewal or extension period. According to the Board, it interpreted the pertinent rule incorrectly. The total contract value is defined as the estimated dollar amount that an agency may be obligated to pay pursuant to the contract and all executed and proposed amendments, addendums, price list changes, updates, modifications, attestation letters, extensions, renewals, and/or certain types of directly related supporting records from the onset of the agreement established with the vendor(s) throughout its whole lifespan, all the way until the completion of the agreement, according to **34 Texas Administration Code Section 20.25(b)(13)**. Thus, total contract value is not limited to only the cost for the initial term; it is determined by the value of the contract over its complete term, including any potential subsequent renewals or extensions, as conveyed in the text. According to the ***State of Texas Procurement and Contract Management Guide*** – Procurement Planning section, planning is a crucial step to the successful outcome of any procurement. Agencies should perform a needs assessment using tools such as market research, historical spend analysis, requests for information and benchmarking, among others, to develop an accurate total contract cost estimate.

## Recommendation/Requirement

The Board should reevaluate and improve its contracting and purchase/procurement planning processes to ensure they meet applicable requirements. The Board should develop appropriate procurement cost estimates to select the appropriate procurement method and to comply with statutory requirements based on total contract value, funding source or expenditure restrictions and prohibitions. To ensure successful procurements and transitions from contract development to management and monitoring, the Board should develop acquisition measures such as qualification evaluation and contract monitoring tools, and should maintain the complete records in the contract files. See the ***State of Texas Procurement and Contract Management Guide*** – Procurement Planning – Cost Estimate for best business practices.

## Board Response

*The Agency's General Counsel Division has provided Staff Services with an updated Contract Management Handbook citing the new statutory requirements and including proper implementation of rules and recommendations set forth in this Corrective Action Plan.*

*Commissioner Note – The contract generating the recommendation was for internal audit services under a State Auditor's Office delegation of authority. Staff respectfully disagrees with the Comptroller auditor's estimated total value of the contract – $125,000. The agency contracted in a not-to-exceed amount of $25,000 for applicable audit services covering distinct audit areas on an annual fiscal year basis. Each new year, the Board's Audit Committee recommends to the full Board whether to execute a new audit contract for the new fiscal year with the Board's existing service provider/vendor or to seek a new service provider/vendor for the new fiscal year through an RFP process.*

*Of further note, the recommendation does not reflect the Board's current internal audit contracting procedures (Fiscal 2022 – RFP with not-to-exceed amount of $35,000). The service provider/vendor is also a CPA approved vendor and designated HUB.*

## Comptroller Response

The initial term of the contract reviewed was Sept. 1, 2016, to Aug. 31, 2017, with optional renewal terms of an additional four fiscal years. The contract's pricing and payment terms state the total amount to be paid each fiscal year was not to exceed $25,000 dollars. However, **34 Texas Administrative Code Section 20.25** defines contract value as the estimated dollar amount that a state agency may be obligated to pay pursuant to the contract and all executed and proposed amendments, extensions and renewals of the contract. In accordance with this definition of contract value, the Comptroller's office treated and reviewed the contract as a contract with a $125,000 contract value.

The Comptroller's office appreciates the Board updating its Contract Management Handbook to include proper implementation of the rules and recommendation set forth in the Corrective Action Plan.

# Noncompliance Deficiencies

## Missing Electronic State Business Daily (ESBD) Solicitation/ESBD Notice of Award Postings

The Board did not meet the solicitation advertisement requirements or the notice of award postings requirements on one contract. The procurement file did not contain proof of posting on the ESBD for this contract, which was over $25,000. It is mandatory to advertise solicitations by posting them on the ESBD for all purchases, solicitations and/or notices of award expected to exceed $25,000 to increase the opportunity for the

attainment of best value. This includes delegated purchases, emergencies, construction projects, professional or consulting services, proprietary purchases or purchases exempt from the Statewide Procurement Division's (SPD) purchasing authority. Agencies must advertise a complete solicitation package for a minimum of 14 days, or 21 days if the solicitation package is too lengthy or complex to post in its entirety. See ***State of Texas Procurement and Contract Management Guide*** – Solicitation – Advertisement for best practices. If posted, posting documentation must be maintained in the contract file.

After the contract is awarded, a notification of award must be posted to the ESBD within two business days if the contract is expected to exceed $25,000. In the event the action resulting from the ESBD posting is not a contract award, the Comptrollers office recommends the agency post notice of the non-award to the ESBD. Depending on the procurement, an agency may also choose to notify each respondent in writing of the non-selection and maintain proof of the ESBD procurement or contract notice posting in the procurement file.

## Recommendation/Requirement

The Board must ensure that any contract over $25,000 is posted on the ESBD for the proper duration and that staff maintains posting documentation in the contract file. Failure to post a qualifying purchase for the mandatory time could void the contract. See **Texas Government Code, Section 2155.083**. Additionally, future payments under voided contracts are prohibited, and failure to comply could subject the agency to a reduction in appropriation per **Texas Government Code, Section 403.071(h)(5)**.

## Board Response

*The agency intends to update procurement procedures and comply with this recommendation.*

*Commissioner Note – The contract generating the recommendation was for internal audit services under a State Auditor's Office delegation of authority. Staff respectfully disagrees with the Comptroller auditor's estimated total value of the contract – $125,000. The agency contracted in a not-to-exceed amount of $25,000 for applicable audit services covering distinct audit areas on an annual fiscal year basis. Each new year, the Board's Audit Committee recommends to the full Board whether to execute a new audit contract for the new fiscal year with the Board's existing service provider/vendor or to seek a new service provider/vendor for the new fiscal year through an RFP process.*

*Of further note, the recommendation does not reflect the Board's current internal audit contracting procedures (Fiscal 2022 – RFP with not-to-exceed amount of $35,000). The service provider/vendor is also a CPA approved vendor and designated HUB.*

## Missing Proof of Centralized Masters Bidders List (CMBL) Search

The Board did not provide evidence of having conducted a CMBL search of all eligible vendors for one contract. The Board stated it "did not have the Excel spreadsheet noting the vendors on the CMBL."

The CMBL is a database of registered vendors that includes contact information and a list of the goods and services each offers. 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 SPD's authority and to gather information for noncompetitive procurement processes and vendor performance data.

Agencies must retain the awarded vendor's CMBL profile showing the date for file documentation. See ***State of Texas Procurement and Contract Management Guide*** – Centralized Master Bidders List section. Agencies must retain proof that they checked the CMBL system before awarding or renewing a contract. See **Texas Government Code, Sections 2155.263** and **2155.264**, as well as **34 Texas Administrative Code, Section 20.107(g)**.

### Recommendation/Requirement

The Board must use the CMBL for all purchases, including services for which competitive bidding or competitive sealed proposals are required. A dated proof of the CMBL search results from the specified website must be included in the contract file as evidence of the vendor search.

### Board Response

*Procurement procedures will be updated to include this recommendation. We were currently saving the emails sent to the vendors from the list but will update our procedures to include the dated proof of the full list from the search in addition to the actual emails sent to vendors.*

*Commissioner Note – The contract generating the recommendation was for internal audit services under a State Auditor's Office delegation of authority. Staff respectfully disagrees with the Comptroller auditor's estimated total value of the contract – $125,000. The Agency contracted in a not-to-exceed amount of $25,000 for applicable audit services covering distinct audit areas on an annual fiscal year basis. Each new year, the Board's Audit Committee recommends to the full Board whether to execute a new audit contract for the new fiscal year with the Board's existing service provider/vendor or to seek a new service provider/vendor for the new fiscal year through an RFP process.*

*Of further note, the recommendation does not reflect the Board's current internal audit contracting procedures (Fiscal 2022 – RFP with not-to-exceed amount of $35,000). The service provider/vendor is also a CPA approved vendor and designated HUB.*

## Missing Proof of Vendor Compliance Verification Checks

Auditors identified one contract and three purchase transactions where the Board was unable to provide evidence of performing the vendor compliance verification (VCV) checks, where applicable. The agency must provide evidence, such as a screen print, showing that each verification was performed. The agency stated that these checks were completed; however, the agency did not know that it had to make dated printouts, screenshots or any other kind of documentary evidence of conducting the searches and keeping a record in the corresponding files.

### Debarment Check

The contract developer (purchaser) must check the **debarred vendor list** posted on the Comptroller's office website to establish that the vendor has not been debarred by SPD. An agency must not award a contract to a debarred vendor. SPD may bar a vendor from participating in state contracts, including any contracts where SPD delegated the purchasing authority to an agency, for substandard performance under a contract. If there are material misrepresentations by a vendor in a bid or proposal or during the term of a contract, SPD may bar the vendor from participation in state contracts. In addition, a vendor may be barred due to fraud or breach of a contract. SPD may also bar a vendor from participating in state contracts if more than two contracts between the vendor and the state have been terminated by the state for unsatisfactory vendor performance during the preceding three years. If a vendor is barred from participating in state contracts, SPD will determine the period of debarment. The period for debarment must be commensurate with the seriousness of the vendor's action and the damage to the state's interests. See **Texas Government Code, Section 2155.077** and ***State of Texas Procurement and Contracts Management Guide*** – Vendor Compliance Verifications.

### Iran, Sudan and Foreign Terrorist List Organization Check

Government entities may not contract with a company doing business with Iran, Sudan or a foreign terrorist organization. See **Texas Government Code, Sections 2252.152**. Each agency must check the divestment lists to determine if the potential awardee is in violation of this requirement. See ***State of Texas Procurement and Contracts Management Guide*** – Vendor Compliance Verifications. The Texas Safekeeping Trust Company maintains the divestment lists and posts them to the **Comptroller's Divestment Statute Lists website**. If the business is in violation, the contract may not be awarded to that vendor.

### Boycott Israel Check

Government entities may not contract with a company for goods or services unless the contract contains a written verification from the company that it does not boycott Israel and will not boycott Israel during the term of the contract. See **Texas Government Code, Section 2271.002**. The Texas Safekeeping Trust Company maintains the divestment lists

and posts them to the Comptroller's Divestment Statute Lists website. Additionally, before award, the agency must check the divestment lists to determine if the potential awardee is in violation of this requirement. If the potential awardee is on the list, the contract may not be awarded to that vendor. See ***State of Texas Procurement and Contracts Management Guide*** – Vendor Compliance Verifications.

### Recommendation/Requirement

The Board must conduct all VCV checks before any purchase, contract award, extension and/or renewal and must retain dated results from the specified website in each of its pertinent purchase, procurement or contract files as proof of having met these requirements.

### Board Response

*Procurement procedures will be updated to include copies in the pertinent procurement files of dated proof of the VCV checks conducted when and as required and to maintain a copy in such files for all required purchase thresholds. The agency was under the impression that VCV checks could be conducted and documented monthly for all vendors collectively instead of being included in the procurement documentation of each vendor.*

*Commissioner Note – The contract generating the recommendation was for internal audit services under a State Auditor's Office delegation of authority. Staff respectfully disagrees with the Comptroller auditor's estimated total value of the contract – $125,000. The agency contracted in a not-to-exceed amount of $25,000 for applicable audit services covering distinct audit areas on an annual fiscal year basis. Each new year, the Board's Audit Committee recommends to the full Board whether to execute a new audit contract for the new fiscal year with the Board's existing service provider/vendor or to seek a new service provider/vendor for the new fiscal year through an RFP process.*

*Of further note, the recommendation does not reflect the Board's current internal audit contracting procedures (Fiscal 2022 – RFP with not-to-exceed amount of $35,000). The service provider/vendor is also a CPA approved vendor and designated HUB.*

*The agency contract generating the recommendation included representations by the service provider/vendor relating to: debarment; Iran, Sudan and foreign terrorist organizations; and Israel boycott prohibitions.*

## LBB Contract Reporting Omission

Auditors identified one contract that was reported to the LBB website but did not include all of the required contracting documentation. The Board failed to post the solicitation, the contract and other documentation pertinent to the agreement. This information must be included when the contract is posted.

According to the **General Appropriations Act (GAA), Article IX, Section 7.04**, a state agency or institution of higher education must report and post every contract over $50,000 and its pertinent documents to the LBB site before the 30th calendar day after awarding the contract. The submission must include all the required records. See the **LBB Contract Reporting Guide**.

### Recommendation/Requirement

When posting contracts to the LBB website, the Board must include all contract documentation, including all contracts, amendments, modifications, renewals and extensions and/or certain types of directly related supporting records to comply with the **General Appropriations Act (GAA), Article IX, Section 7.04** and the **LBB Contract Reporting Guide**.

### Board Response

*Procurement procedures and the Contract Management Handbook will be updated to ensure compliance with this recommendation.*

*Commissioner Note – The contract generating the recommendation was for internal audit services under a State Auditor's Office delegation of authority. Staff respectfully disagrees with the Comptroller auditor's estimated total value of the contract – $125,000. The agency contracted in a not-to-exceed amount of $25,000 for applicable audit services covering distinct audit areas on an annual fiscal year basis. Each new year, the Board's Audit Committee recommends to the full Board whether to execute a new audit contract for the new fiscal year with the Board's existing service provider/vendor or to seek a new service provider/vendor for the new fiscal year through an RFP process.*

*Of further note, the recommendation does not reflect the Board's current internal audit contracting procedures (Fiscal 2022 – RFP with not-to-exceed amount of $35,000). The service provider/vendor is also a CPA approved vendor and designated HUB.*

## Failure to Report to the Vendor Performance Tracking System

Auditors identified one contract where the Board failed to report to VPTS. The Board stated that the reporting was not completed due to an oversight which has now been corrected.

Reporting to VPTS identifies suppliers demonstrating exceptional performance, aids purchasers in making a best-value determination based on vendor past performance and protects the state from vendors with unethical business practices. Reporting also identifies vendors with repeated delivery and performance issues, provides performance scores in four measurable categories for CMBL vendors and tracks vendor performance for delegated and exempt purchases.

SPD administers VPTS for use by all ordering agencies per **34 Texas Administrative Code Section 20.115**. VPTS relies on agency participation to gather information on vendor performance. Ordering agencies are also encouraged to report vendor performance for purchases under $25,000. See **Texas Government Code, Sections 2155.089** and **2262.055**.

### Recommendation/Requirement

The Board should revise its policies and procedures to ensure that vendor performance reports are submitted to the VPTS timely.

### Board Response

*General counsel has updated the Contract Management Handbook to ensure that these reporting requirements are completed and submitted in a timely fashion and documented as required in the contract file.*

*Commissioner Note – The contract generating the recommendation was for internal audit services under a State Auditor's Office delegation of authority. Staff respectfully disagrees with the Comptroller auditor's estimated total value of the contract – $125,000. The agency contracted in a not-to-exceed amount of $25,000 for applicable audit services covering distinct audit areas on an annual fiscal year basis. Each new year, the Board's Audit Committee recommends to the full Board whether to execute a new audit contract for the new fiscal year with the Board's existing service provider/vendor or to seek a new service provider/vendor for the new fiscal year through an RFP process.*

*Of further note, the recommendation does not reflect the Board's current internal audit contracting procedures (Fiscal 2022 – RFP with not-to-exceed amount of $35,000). The service provider/vendor is also a CPA approved vendor and designated HUB.*

## Travel Transactions

Auditors developed a sample of 15 travel transactions totaling $4,941.04 to ensure the Board complied with the GAA, **Textravel (FPP G.005)** and pertinent statutes. Audit tests revealed the following exceptions for this group of transactions.

### State Travel Card/State Contracted Vendor Not Used for Airfare

Auditors identified one travel transaction where an employee did not use a contracted state travel agency or an agency travel card for an airline ticket. The employee used a personal credit card and requested reimbursement. According to the Board, the traveler stated that the reservations were completed by an administrative staff member who no longer works for the Board. The employee, therefore, cannot explain why the staff member chose to use the employee's personal card. Contract travel services and a

state of Texas travel card must be used unless an approved exception exists, in which case the exception must be documented on or with the travel voucher. See **34 Texas Administrative Code Sections 20.408** and **20.413**.

### Recommendation/Requirement

The Board must ensure travelers charge all airfare to the state-issued travel credit card and use the state contracts unless an exception is noted.

### Board Response

*Information provided to staff in the agency's "Travel tips" and new-hire travel training was updated to emphasize this recommendation.*

*Commissioner Note – The annual in-house agency-wide training will include content on state travel card & airfare requirements and areas related to procurement. General counsel has also developed and will conduct a "Travel Card Training" slide deck for existing and new staff.*

## Missing Documentation of Advance Approval for Out-of-State Travel

Auditors identified one instance where the Board did not maintain documentation of the advance approval for out-of-state travel. According to **Texas Government Code, Section 660.003(e)(4)**, and **TexTravel (FPP G.005) – Miscellaneous Provisions – Out-of-state travel**, a state agency may only pay for business-related travel expenses incurred outside of Texas if the travel was approved in advance in accordance with agency policy. The Board's travel policies state that travel on state business outside Texas must be approved in advance by an employee's division director or the securities commissioner. In this instance, the required approval was not documented.

According to the Board, the traveler stated that the director of enforcement sent out an email to the entire Enforcement Division notifying and encouraging them to attend the training. However, the traveler did not realize it was necessary to save that email.

### Recommendation/Requirement

The Board must consistently follow TexTravel and its own policy to ensure that all instances of out-of-state travel have written documentation of advance approval by the responsible personnel and that the documentation is included in the travel file.

### Board Response

*This information was added to the travel training for new employees and will be also added to the "How to Book Travel" information made available to all staff on the agency intranet.*

*Commissioner Note – While documentation was not readily identifiable, the traveler received prior management approval for the out-of-state travel identified in the report.*

## Refunds of Revenue

Auditors developed a sample of five refunds of revenue transactions totaling $255,722.31 to ensure the Board complied with state laws and regulations pertaining to refunds of revenue. Audit test revealed no exceptions in these transactions.

## Fixed Assets

The audit included a review of a limited number of fixed assets acquired by expenditures during the audit period to test for accurate reporting and to verify the existence of assets. All assets tested were in their intended location and properly recorded in the State Property Accounting (SPA) system. Audit tests revealed no exceptions in these transactions.

## Security

The audit included a security review to identify 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 met so that security can be revoked in a timely manner. Audit tests revealed no exceptions in this portion of the security review.

## Internal Control Structure

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

### Control Weaknesses Over Expenditure Processing

As part of the planning process for the post-payment audit, auditors reviewed certain limitations the Board placed on its accounting staff's ability to process expenditures. Auditors reviewed the Board's security in USAS, USPS, the Texas Identification Number System (TINS) and the voucher signature cards in effect on Feb. 25, 2022.

Auditors reviewed compensating/mitigating controls the Board indicated it has related to USAS, USPS and TINS security, as well as internal transaction approvals. After consideration, auditors determined some of those controls were either not applicable to the processes under review or were insufficient to mitigate the associated risk.

The Board had one employee with multiple security capabilities. The employee had the security access to:

- Enter/edit and release/approve payment vouchers in USAS and create/edit vendor/direct deposit information and warrant hold status in TINS.

- Approve an electronic and a paper voucher for expedite (by being on the agency's signature card) and on the agency's Authorization for Warrant Pickup list.
- Approve an electronic payment and a paper voucher for expedite (by being on the agency's signature card) and edit/update a vendor or employee file/direct deposit information and change warrant hold status in TINS.

As a result of the audit, the Board made the necessary changes to the employee's security to correct the control weaknesses over expenditure processing listed above.

## Recommendation/Requirement

The Board should continue to review the controls over expenditure processing and segregate each task to the maximum extent possible to ensure that no individual is able to process payments without oversight. See **USAS Accounting and Payment Control (FPP B.005)**.

## Board Response

*The security authorization that caused this recommendation was corrected during the audit field work. In the future, security authorizations will not be provided without requesting the Comptroller staff to provide the same type of review that was made available to the audit staff members. This type of automated report will be a huge help to agency staff.*

# 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 State Securities Board (Board) payroll, purchase and travel transactions that processed through USAS and USPS from Sept. 1, 2020, through Aug. 31, 2021, to determine compliance with applicable state laws.

The Board 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.

***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 Board should implement the recommendations listed in the Detailed Findings of this report. It is the Board's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the Board's documents comply in the future. The Board must ensure that the findings discussed in this report are resolved.

## 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 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 |
| 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:<br>• Lack of appropriate and sufficient evidentiary matter.<br>• Restrictions on information provided to auditor.<br>• 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.<br>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.