

**Agenda Item: 2.3**  
**Prepared by: Mark Majek**  
**Laurie Perez**  
**Meeting Date: October 2012**

**Summary of Request:**

The attached report is a culmination of a post-payment audit conducted by the Office of the Comptroller this past fiscal year inclusive of selected financial transactions by the Board of Nursing (BON) between March 1, 2011 and February 29, 2012.

**Historical Perspective:**

The Texas Board of Nursing, as a state agency, is subject to ongoing financial audits by the Office of the Comptroller. This particular audit covered a sample of BON purchase, payroll and travel transactions between the dates of March 1, 2011 and February 29, 2012.

**Pros:**

Financial audits provide validation to the Legislature, the Board and constituents of the agency's accountability in stewardship of state funds.

**Cons:**

None

**Staff Recommendation:**

Board Action: No action is necessary as the attached report is for information purposes only.

**Audit Report # 507-12-01**

# **Post Payment Audit of the Texas Board of Nursing**

**Fiscal Management Division  
Expenditure Audit Section**

**August 23, 2012**



**Susan Combs  
Texas Comptroller of Public Accounts**

**Auditor: Tammy Koenings, CPA**

S U S A N

C O M B S

TEXAS COMPTROLLER *of* PUBLIC ACCOUNTS

P.O. Box 13528 • AUSTIN, TX 78711-3528



August 23, 2012

Katherine A. Thomas, MN, RN, FAAN  
Executive Director  
Texas Board of Nursing  
333 Guadalupe St., Suite 3-460  
Austin, TX 78701-3938

Dear Ms. Thomas:

We have completed a post payment audit of certain payroll transactions of the Texas Board of Nursing (Board). A draft of this audit report was sent to the Director of Operations, Mark Majek, on July 27, 2012. Responses to the draft are included within this final report.

We would like to thank your staff for their responsiveness and cooperation in assisting us with this audit.

Our purpose was to determine whether the Board's expenditures complied with certain state laws and rules concerning expenditures and with the processing requirements of the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS). The Board is responsible for ensuring that its staff is knowledgeable in those areas.

The Board must submit to the Texas Comptroller of Public Accounts (Comptroller's office) a corrective action plan that addresses the instances of payment and documentation errors detailed within this report. The plan must provide for appropriate improvements in the control structure related to the Board's payment process and show expected dates of implementation. The corrective action plan must be completed and signed by management and internal audit. An electronic copy of the corrective action plan is available upon request. Our office must receive the completed plan by Sept. 24, 2012.

We intend for this report to be used by the Board's management and certain state officials and agencies as listed in Tex. Gov't Code Ann. § 403.071 (Vernon Supp. 2011). However, the audit report is a public record, and its distribution is not limited.

We noted any other matters involving the processing of expenditures by the Board that we have communicated in an email to Mr. Majek, dated July 25, 2012.

Katherine A. Thomas, MN, RN, FAAN

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We would like to request input from you or your designee on the quality of the audit process and the service provided by the audit staff while conducting this audit. Please use the following website to provide feedback on the post-payment audit process: <https://fm.x.cpa.state.tx.us/fm/survey/audit/>. We have also attached a copy of the document for your convenience. We greatly appreciate your feedback.

The Board may inquire about and register for training related to these findings through the Fiscal Management Training Center website at <https://fm.x.cpa.state.tx.us/fmx/training/index.php>.

Thank you for your cooperation. If we can be of any further assistance, please contact Tammy Koenings at [tammy.koenings@cpa.state.tx.us](mailto:tammy.koenings@cpa.state.tx.us) or 512-475-0628.

Sincerely,



Lisa M. Nance  
Manager  
Statewide Fiscal Services

Enclosure

cc: Kristin K. Benton, MSN, RN, Board President, Texas Board of Nursing  
Mark Majek, Director of Operation, Texas Board of Nursing  
Laurie Perez, Accounting Manager, Texas Board of Nursing  
Tammy Koenings, CPA, Auditor, Statewide Fiscal Services, Texas Comptroller of  
Public Accounts

## Audit Scope

A sample of the Board's purchase, payroll, and all travel and grant transactions that processed through USAS and USPS during the period beginning March 1, 2011 through February 29, 2012 was audited to determine compliance with applicable state laws.

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 Tex. Gov't Code Ann. § 403.071(h) (Vernon Supp. 2011) to ensure that the Board's documents comply in the future. The Board must ensure that the findings discussed in this report are resolved.

*The law requires the Comptroller's office to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.*

## Payroll Transactions and Payroll Deductions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), the *Texas Payroll/ Personnel Resource (Payroll Resource)*<sup>1</sup> and other pertinent statutes.

The audit identified:

- Five employees' personnel files were missing new hire authorization.
- Two employees were missing documentation of prior state service verification.
- Two employees were underpaid longevity pay.

A sample of voluntary deductions was also reviewed.

- No errors were identified.

## Purchase Transactions

Purchase transactions were audited for compliance with the GAA, *eXpendit*, and other pertinent statutes.

- No errors were identified

## Travel Transactions

Travel transactions were audited for compliance with the GAA, *Textravel*, and other pertinent statutes.

- No errors were identified.

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<sup>1</sup> Effective Oct. 27, 2011, *Texas Payroll/Personnel Resource* replaces the *State of Texas Payroll Policies and Procedures Guide*. The *Texas Payroll/Personnel Resource* guidelines are located on the FMX Web site: <https://fm.xcpa.state.tx.us/fm/pubs/paypol/index.php>. Portions of the *State of Texas Payroll Policies and Procedures Guide* are still in effect until further notice.

### **Internal Control Structure**

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

The audit identified five employees with multiple security capabilities:

- Four employees had the security to process and release payments through USAS and four employees could process and release payrolls without electronic oversight.
- Three of the five employees could also adjust payment instructions in the Texas Identification Number System (TINS) and approve paper vouchers, and three could pick up warrants from the Comptroller's office and approve vouchers.

### **Fixed Assets**

The audit included a limited number of fixed assets acquired by expenditures during our audit period to test for accurate reporting in the State Property Accounting system (SPA) and to verify existence of the assets.

- All of the assets tested were in their intended location and properly recorded in SPA.

### **Prior Post-Payment Audit and Current Audit Recurring Errors**

A prior post-payment audit of the Board's payroll, purchase, and travel transactions was concluded on November 21, 2008.

During the current audit, the following recurring errors were identified:

- missing documentation of prior state service verifications
- incorrect payments of longevity pay
- control weakness over expenditure processing

### **Contact**

Tammy Koenings, CPA

### **Contributing Auditors**

Kathy Hubert, CPA, CTP  
Ben Strauser, MBA, CTP

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## **DETAILED FINDINGS**

## DETAILED FINDINGS – PAYROLL

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### INSUFFICIENT DOCUMENTATION

#### Finding

Five personnel files were missing the new hire authorization. The missing files were lacking authorizations dating back to the 1980s where the Board indicated there was no written documentation maintained for any employment offer.

Agencies are required to maintain specific documentation to support the legality, propriety, and fiscal responsibility of each payment made out of the agency's funds. The Comptroller may require the documentation to be made available during a post-payment audit, a pre-payment audit, or at any other time. See Texas Comptroller of Public Accounts, *Payroll Resource – General Provisions – Required Documentation*, [https://fm.x.cpa.state.tx.us/fm/pubs/paypol/general\\_provisions/index.php?section=documentation&page=documentation](https://fm.x.cpa.state.tx.us/fm/pubs/paypol/general_provisions/index.php?section=documentation&page=documentation).

Since then, the Board has implemented an internal authorization of employment to document the information for all new hires.

The payroll schedules were provided to the Board during the audit and are not included with this report due to confidentiality issues.

#### Recommendation/Requirement

We recommend the Board ensure its new hire authorizations are properly documented and included in the files.

#### Board Response

*The Board documents new hire authorizations; however, the files referenced in this finding are related to employees hired between 1983-1987. Several of the files included in this group had previously been audited by the Comptroller and no findings of insufficient documentation were noted. The Board feels the selected range of applicant files is out of date. The Board's policy is that new hire authorizations are properly documented and included in the personnel files.*

#### Comptroller Response

The Comptroller acknowledges that certain employees may have been hired prior to the audit period; however, these employees received payments during this period and therefore, are included in the sample.

New hire documentation is necessary to verify employees' state service credit, the accuracy of longevity payments, and eligibility for benefit replacement pay.

## DETAILED FINDINGS – PAYROLL

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### INCORRECT LONGEVITY PAYMENTS/MISSING PRIOR STATE SERVICE VERIFICATION

#### Finding

We identified two instances of missing prior state service verification that resulted in one underpayment of longevity pay. We also identified a third employee with an incorrect employment start date that resulted in an underpayment of longevity pay.

Prior state service documentation is necessary to verify the employees' state service and the accuracy of longevity payments. The first employee's prior state services were accurately reported and paid through USPS, however, the supporting documentation was missing in her personnel file. The second employee indicated prior state employment on her application which the Board failed to verify at the time of her initial employment. The employee was underpaid a total of \$620 for the duration of employment with the Board. The Board indicated oversight in both instances.

The third employee's underpayment of longevity pay resulted from not properly reflecting the employee's employment date in USPS. The employee's start date was on the second day of the month; however, it was the first working day of the month. An individual who begins working on the first workday of a month in a position that accrues lifetime service credit is considered to have begun working on the first day of the month. See Tex. Gov't Code Ann. § 659.043(a)(1) (Vernon Supp. 2008). This resulted in an underpayment of \$20 for the audited sample transaction, and a total of \$40 for the duration of employment with the Board.

When an agency hires an employee, the agency must research if the employee has previous state employment. If there is prior state employment, the agency must: confirm the amount of lifetime service credit, and compute the correct amount of longevity pay entitlement. See Texas Comptroller of Public Accounts, *Payroll Resource – Non-Salary Payments – Longevity Pay*, [https://fm.x.cpa.state.tx.us/fm/pubs/paypol/nonsalary\\_Provisions/index.php?section=longevity&page=longevity](https://fm.x.cpa.state.tx.us/fm/pubs/paypol/nonsalary_Provisions/index.php?section=longevity&page=longevity).

The Board received the payroll schedules during the audit. The schedules are not included with this report due to confidentiality issues.

#### Recommendation/Requirement

The Board must ensure that prior state service is properly verified and documented for its employees. The Board must also compensate the employees who were underpaid longevity pay. The Board must ensure that its internal operating procedures include quality control measures that will detect any underpayment of compensation to a state employee. The Board shall promptly correct the underpayment through a supplemental payroll. See 34 Tex. Admin. Code § 5.40(c) (2011).

## DETAILED FINDINGS – PAYROLL

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### **Board Response**

*The Board has a form that is given to all newly hired employees, which asks if they have any prior state service. They may list all service they think may be eligible so that we can obtain verification from each source. We also refer to the application to obtain prior state service history. The Board has already compensated one of the employees what was underpaid on longevity. The Board will compensate the other underpaid employee on the next payroll.*

## DETAILED FINDINGS – EXPENDITURE APPROVAL

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### CONTROL WEAKNESS OVER EXPENDITURE PROCESSING

#### Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations that the Board placed on its accounting staff members' abilities to process expenditures. We reviewed the Board's security in USAS, USPS, TINS, and voucher signature cards that was in effect on April 3, 2012. We did not review or test any internal or compensating controls that the Board may have relating to USAS or TINS security or internal transaction approvals.

We identified five employees with multiple security capabilities. Four employees had the security to process and release payments through USAS and four employee could process and release payrolls without electronic oversight. Three of the 5 employees could also adjust payment instructions in TINS and approve paper vouchers and three could pick up warrants from the Comptroller's office and approve vouchers. The Board received a schedule of this finding during fieldwork.

To reduce risks to state funds, agencies should have controls over expenditure processing that segregates each accounting task to the greatest extent practical. Ideally, no individual should be able to enter or alter and then release payments or other accounting transactions within the state governmental accounting systems without another person's involvement.

We ran a report to determine whether any of the Board's payment documents processed through USAS during the audit period because of the action of only one person. There were 10 USAS documents that were either entered and approved, or altered and approved, by the same person without another person's electronic oversight. These documents resulted in payments totaling \$6,556.14. The documents were reviewed during the fieldwork phase of the audit and were determined to be valid expenditures. We provided the Board with a copy of this report during fieldwork.

#### Recommendation/Requirement

The Board should review the controls over expenditure processing and segregate each task to the extent possible to ensure that no individual is able to process payments without oversight.

*Fiscal Policies and Procedures* B.005 discusses the following tools that are available in USAS for agencies to use to strengthen internal controls and reduce risks to state funds:

- The Board may request that a preventative control be enforced for all of their transactions in USAS. If an agency requests the control, an edit will prevent the release of a document that the same user entered or altered, or warn when this is about to occur.

## DETAILED FINDINGS – EXPENDITURE APPROVAL

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- The Board may request to receive the Risky Documents Report (DAFR9840) to identify documents that the same user entered or altered and then released for processing. This report enables agency management or internal and external auditors to easily identify and review these documents.

### **Board Response**

*Purchase and travel vouchers must be signed by two executive staff. They are then entered into USAS by the Accountant and released for payment by the Accounting Manager. Trial payrolls must be approved by executive staff prior to running a final payroll. The final payroll is set up in USPS by the Accountant and released for payment by the Accounting Manager. The final payroll must agree to the approved trial, ensuring that no changes were made.*

*Due to the vast array of duties and the limited number of Accounting staff, the department struggles at times to maintain the separation of duties, especially when staff members are away from the office. However, the separation of duties is a top priority. As a result of this audit, security changes have been made to some Accounting staff members to limit their scope of expenditure processing.*

## APPENDICES

APPENDIX 1

## Projection of Sample Errors Detected Texas Board of Nursing

Audit Period: March 1, 2011 to February 29, 2012

**GROUP 1 (USPS) PAYROLL TRANSACTIONS**

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)	
B	\$0.00	\$999,999,999.00	326	\$40.00	\$631,919.70	.000063	\$4,844,589.88	\$306.66	
						(F)	(G)	(H)	
						\$631,919.70	.000063	\$4,844,589.88	\$306.66

**GROUP 1 (USAS) REVENUE TRANSACTIONS**

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)	
B	\$0.00	\$999,999,999.00	10	\$0.00	\$3,571.00	.000000	\$12,886.88	\$0.00	
						(F)	(G)	(H)	
						\$3,571.00	.000000	\$12,886.88	\$0.00

**GROUP 2 (USAS) PURCHASE TRANSACTIONS**

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)	
A	\$0.00	\$999,999,999.00	139	\$0.00	\$3,987,291.53	.000000	\$4,727,302.62	\$0.00	
						(F)	(G)	(H)	
						\$3,987,291.53	.000000	\$4,727,302.62	\$0.00

**GROUP 3 TRAVEL TRANSACTIONS**

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)	
A	\$0.00	\$999,999,999.00	142	\$0.00	\$19,951.81	.000000	\$93,592.53	\$0.00	
						(F)	(G)	(H)	
						\$19,951.81	.000000	\$93,592.53	\$0.00

**Legend**

Sample Error Rate (C) = (A) ÷ (B)
Projected Errors (E) = (C) X (D)
Group Error Rate (F) = (H) ÷ (G)
Group Population Base (G) = sum of Population Bases (D)
Group Projected Errors (H) = sum of Projected Errors (E)
Total Population Base (I) = sum of Group Population Bases (G)
Total Projected Errors (J) = sum of Group Projected Errors (H)

**TOTAL PROJECTION**

Total Population Base (I)	Total Projected Errors (J)
\$9,678,371.91	\$306.66

**Note:**

All dollar amounts rounded to the second decimal place.

All error rates rounded to the sixth decimal place.

A state agency may request the Comptroller's office to pay a claim against the agency only by submitting the appropriate payment voucher to the Comptroller's office. TEX. GOV'T CODE ANN. §§ 404.046, 404.069 (Vernon 2005), §§ 2103.003, 2103.0035, 2103.004 (Vernon 2008). State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher. TEX. GOV'T CODE ANN. § 403.071(a) (Vernon Supp. 2011), § 403.078 (Vernon 2005) § 2103.004(a)(3) (Vernon 2008).

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. Tex. Gov't Code Ann. § 403.071(g)-(h) (Vernon Supp. 2011), Tex. Gov't Code Ann. § 2155.325 (Vernon 2008). In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis. Tex. Gov't Code Ann. §§ 403.011(a)(13), 403.079 (Vernon 2005), Tex. Gov't Code Ann. § 2155.324 (Vernon 2008).

The Expenditure Audit section of the Comptroller's office Statewide Fiscal Services conducts these audits.

### **Audit objectives**

The primary objectives of a post-payment audit are to:

- Ensure that payments are documented so that a proper audit can be conducted.
- Ensure that payment vouchers are processed according to the requirements of the uniform statewide accounting and payroll systems.
- Verify that payments are made in accordance with certain applicable state laws.
- Verify that assets are in their intended location and are properly recorded in the SPA system.
- Verify that the voucher signature cards and systems security during the audit period were consistent with applicable laws, rules, and other requirements.

### **Methodology**

The expenditure audit section uses generally recognized sampling techniques to conduct a post-payment audit. The computer audit menu system software is used to generate a stratified random sample of payment vouchers for the audit, with a confidence level of 95 percent. The vouchers are audited in detail, and the results of the audit are projected to estimate the amount of claims that were unsubstantiated or improperly paid. Limited samples are also utilized where applicable.

### **Field Work**

Each auditor in the expenditure audit section is required to approach the field work phase of each audit with an appropriate level of professional skepticism based upon the results of the initial planning procedures. If an auditor suspects during an audit that fraud, defalcations, or intentional misstatement of the facts has occurred, then the auditor will meet with his or her supervisor or the Statewide Fiscal Services manager, or both, to decide what course of action or additional procedures would be appropriate.

### **Reporting**

Each auditor audits the payment vouchers included in a sample according to established policies and procedures. The audit findings are reported to the audited agency in the form of a report.

The audit report discloses the total dollar amount of any unsubstantiated payments or overpayments noted in the sample. In addition, the report shows the result of projecting those payments to the appropriate population. Finally, the report includes recommendations and requirements for the audited agency. Each auditor discusses the management issues noted during the audit at the exit and communicates details of these issues to the chief fiscal officer.

**Audit Report # 507-12-01**

# **Post Payment Audit of the Texas Board of Nursing**

**Fiscal Management Division  
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**August 23, 2012**



**Susan Combs  
Texas Comptroller of Public Accounts**

**Auditor: Tammy Koenings, CPA**

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The Board may inquire about and register for training related to these findings through the Fiscal Management Training Center website at <https://fm.x.cpa.state.tx.us/fmx/training/index.php>.

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Sincerely,



Lisa M. Nance  
Manager  
Statewide Fiscal Services

Enclosure

cc: Kristin K. Benton, MSN, RN, Board President, Texas Board of Nursing  
Mark Majek, Director of Operation, Texas Board of Nursing  
Laurie Perez, Accounting Manager, Texas Board of Nursing  
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### **Contact**

Tammy Koenings, CPA

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Kathy Hubert, CPA, CTP  
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## **DETAILED FINDINGS**

## DETAILED FINDINGS – PAYROLL

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#### Finding

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Since then, the Board has implemented an internal authorization of employment to document the information for all new hires.

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#### Recommendation/Requirement

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*The Board documents new hire authorizations; however, the files referenced in this finding are related to employees hired between 1983-1987. Several of the files included in this group had previously been audited by the Comptroller and no findings of insufficient documentation were noted. The Board feels the selected range of applicant files is out of date. The Board's policy is that new hire authorizations are properly documented and included in the personnel files.*

#### Comptroller Response

The Comptroller acknowledges that certain employees may have been hired prior to the audit period; however, these employees received payments during this period and therefore, are included in the sample.

New hire documentation is necessary to verify employees' state service credit, the accuracy of longevity payments, and eligibility for benefit replacement pay.

## DETAILED FINDINGS – PAYROLL

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### INCORRECT LONGEVITY PAYMENTS/MISSING PRIOR STATE SERVICE VERIFICATION

#### Finding

We identified two instances of missing prior state service verification that resulted in one underpayment of longevity pay. We also identified a third employee with an incorrect employment start date that resulted in an underpayment of longevity pay.

Prior state service documentation is necessary to verify the employees' state service and the accuracy of longevity payments. The first employee's prior state services were accurately reported and paid through USPS, however, the supporting documentation was missing in her personnel file. The second employee indicated prior state employment on her application which the Board failed to verify at the time of her initial employment. The employee was underpaid a total of \$620 for the duration of employment with the Board. The Board indicated oversight in both instances.

The third employee's underpayment of longevity pay resulted from not properly reflecting the employee's employment date in USPS. The employee's start date was on the second day of the month; however, it was the first working day of the month. An individual who begins working on the first workday of a month in a position that accrues lifetime service credit is considered to have begun working on the first day of the month. See Tex. Gov't Code Ann. § 659.043(a)(1) (Vernon Supp. 2008). This resulted in an underpayment of \$20 for the audited sample transaction, and a total of \$40 for the duration of employment with the Board.

When an agency hires an employee, the agency must research if the employee has previous state employment. If there is prior state employment, the agency must: confirm the amount of lifetime service credit, and compute the correct amount of longevity pay entitlement. See Texas Comptroller of Public Accounts, *Payroll Resource – Non-Salary Payments – Longevity Pay*, [https://fm.x.cpa.state.tx.us/fm/pubs/paypol/nonsalary\\_Provisions/index.php?section=longevity&page=longevity](https://fm.x.cpa.state.tx.us/fm/pubs/paypol/nonsalary_Provisions/index.php?section=longevity&page=longevity).

The Board received the payroll schedules during the audit. The schedules are not included with this report due to confidentiality issues.

#### Recommendation/Requirement

The Board must ensure that prior state service is properly verified and documented for its employees. The Board must also compensate the employees who were underpaid longevity pay. The Board must ensure that its internal operating procedures include quality control measures that will detect any underpayment of compensation to a state employee. The Board shall promptly correct the underpayment through a supplemental payroll. See 34 Tex. Admin. Code § 5.40(c) (2011).

## DETAILED FINDINGS – PAYROLL

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### **Board Response**

*The Board has a form that is given to all newly hired employees, which asks if they have any prior state service. They may list all service they think may be eligible so that we can obtain verification from each source. We also refer to the application to obtain prior state service history. The Board has already compensated one of the employees what was underpaid on longevity. The Board will compensate the other underpaid employee on the next payroll.*

## DETAILED FINDINGS – EXPENDITURE APPROVAL

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### CONTROL WEAKNESS OVER EXPENDITURE PROCESSING

#### Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations that the Board placed on its accounting staff members' abilities to process expenditures. We reviewed the Board's security in USAS, USPS, TINS, and voucher signature cards that was in effect on April 3, 2012. We did not review or test any internal or compensating controls that the Board may have relating to USAS or TINS security or internal transaction approvals.

We identified five employees with multiple security capabilities. Four employees had the security to process and release payments through USAS and four employee could process and release payrolls without electronic oversight. Three of the 5 employees could also adjust payment instructions in TINS and approve paper vouchers and three could pick up warrants from the Comptroller's office and approve vouchers. The Board received a schedule of this finding during fieldwork.

To reduce risks to state funds, agencies should have controls over expenditure processing that segregates each accounting task to the greatest extent practical. Ideally, no individual should be able to enter or alter and then release payments or other accounting transactions within the state governmental accounting systems without another person's involvement.

We ran a report to determine whether any of the Board's payment documents processed through USAS during the audit period because of the action of only one person. There were 10 USAS documents that were either entered and approved, or altered and approved, by the same person without another person's electronic oversight. These documents resulted in payments totaling \$6,556.14. The documents were reviewed during the fieldwork phase of the audit and were determined to be valid expenditures. We provided the Board with a copy of this report during fieldwork.

#### Recommendation/Requirement

The Board should review the controls over expenditure processing and segregate each task to the extent possible to ensure that no individual is able to process payments without oversight.

*Fiscal Policies and Procedures* B.005 discusses the following tools that are available in USAS for agencies to use to strengthen internal controls and reduce risks to state funds:

- The Board may request that a preventative control be enforced for all of their transactions in USAS. If an agency requests the control, an edit will prevent the release of a document that the same user entered or altered, or warn when this is about to occur.

## DETAILED FINDINGS – EXPENDITURE APPROVAL

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- The Board may request to receive the Risky Documents Report (DAFR9840) to identify documents that the same user entered or altered and then released for processing. This report enables agency management or internal and external auditors to easily identify and review these documents.

### **Board Response**

*Purchase and travel vouchers must be signed by two executive staff. They are then entered into USAS by the Accountant and released for payment by the Accounting Manager. Trial payrolls must be approved by executive staff prior to running a final payroll. The final payroll is set up in USPS by the Accountant and released for payment by the Accounting Manager. The final payroll must agree to the approved trial, ensuring that no changes were made.*

*Due to the vast array of duties and the limited number of Accounting staff, the department struggles at times to maintain the separation of duties, especially when staff members are away from the office. However, the separation of duties is a top priority. As a result of this audit, security changes have been made to some Accounting staff members to limit their scope of expenditure processing.*

## APPENDICES

APPENDIX 1

## Projection of Sample Errors Detected Texas Board of Nursing

Audit Period: March 1, 2011 to February 29, 2012

**GROUP 1 (USPS) PAYROLL TRANSACTIONS**

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)	
B	\$0.00	\$999,999,999.00	326	\$40.00	\$631,919.70	.000063	\$4,844,589.88	\$306.66	
						(F)	(G)	(H)	
						\$631,919.70	.000063	\$4,844,589.88	\$306.66

**GROUP 1 (USAS) REVENUE TRANSACTIONS**

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)	
B	\$0.00	\$999,999,999.00	10	\$0.00	\$3,571.00	.000000	\$12,886.88	\$0.00	
						(F)	(G)	(H)	
						\$3,571.00	.000000	\$12,886.88	\$0.00

**GROUP 2 (USAS) PURCHASE TRANSACTIONS**

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)	
A	\$0.00	\$999,999,999.00	139	\$0.00	\$3,987,291.53	.000000	\$4,727,302.62	\$0.00	
						(F)	(G)	(H)	
						\$3,987,291.53	.000000	\$4,727,302.62	\$0.00

**GROUP 3 TRAVEL TRANSACTIONS**

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)	
A	\$0.00	\$999,999,999.00	142	\$0.00	\$19,951.81	.000000	\$93,592.53	\$0.00	
						(F)	(G)	(H)	
						\$19,951.81	.000000	\$93,592.53	\$0.00

**Legend**

Sample Error Rate (C) = (A) ÷ (B)
Projected Errors (E) = (C) X (D)
Group Error Rate (F) = (H) ÷ (G)
Group Population Base (G) = sum of Population Bases (D)
Group Projected Errors (H) = sum of Projected Errors (E)
Total Population Base (I) = sum of Group Population Bases (G)
Total Projected Errors (J) = sum of Group Projected Errors (H)

**TOTAL PROJECTION**

Total Population Base (I)	Total Projected Errors (J)
\$9,678,371.91	\$306.66

**Note:**

All dollar amounts rounded to the second decimal place.

All error rates rounded to the sixth decimal place.

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A state agency may request the Comptroller's office to pay a claim against the agency only by submitting the appropriate payment voucher to the Comptroller's office. TEX. GOV'T CODE ANN. §§ 404.046, 404.069 (Vernon 2005), §§ 2103.003, 2103.0035, 2103.004 (Vernon 2008). State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher. TEX. GOV'T CODE ANN. § 403.071(a) (Vernon Supp. 2011), § 403.078 (Vernon 2005) § 2103.004(a)(3) (Vernon 2008).

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. Tex. Gov't Code Ann. § 403.071(g)-(h) (Vernon Supp. 2011), Tex. Gov't Code Ann. § 2155.325 (Vernon 2008). In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis. Tex. Gov't Code Ann. §§ 403.011(a)(13), 403.079 (Vernon 2005), Tex. Gov't Code Ann. § 2155.324 (Vernon 2008).

The Expenditure Audit section of the Comptroller's office Statewide Fiscal Services conducts these audits.

### **Audit objectives**

The primary objectives of a post-payment audit are to:

- Ensure that payments are documented so that a proper audit can be conducted.
- Ensure that payment vouchers are processed according to the requirements of the uniform statewide accounting and payroll systems.
- Verify that payments are made in accordance with certain applicable state laws.
- Verify that assets are in their intended location and are properly recorded in the SPA system.
- Verify that the voucher signature cards and systems security during the audit period were consistent with applicable laws, rules, and other requirements.

### **Methodology**

The expenditure audit section uses generally recognized sampling techniques to conduct a post-payment audit. The computer audit menu system software is used to generate a stratified random sample of payment vouchers for the audit, with a confidence level of 95 percent. The vouchers are audited in detail, and the results of the audit are projected to estimate the amount of claims that were unsubstantiated or improperly paid. Limited samples are also utilized where applicable.

### **Field Work**

Each auditor in the expenditure audit section is required to approach the field work phase of each audit with an appropriate level of professional skepticism based upon the results of the initial planning procedures. If an auditor suspects during an audit that fraud, defalcations, or intentional misstatement of the facts has occurred, then the auditor will meet with his or her supervisor or the Statewide Fiscal Services manager, or both, to decide what course of action or additional procedures would be appropriate.

### **Reporting**

Each auditor audits the payment vouchers included in a sample according to established policies and procedures. The audit findings are reported to the audited agency in the form of a report.

The audit report discloses the total dollar amount of any unsubstantiated payments or overpayments noted in the sample. In addition, the report shows the result of projecting those payments to the appropriate population. Finally, the report includes recommendations and requirements for the audited agency. Each auditor discusses the management issues noted during the audit at the exit and communicates details of these issues to the chief fiscal officer.