

An Audit Report on the

Texas State Treasury Department's Automated Systems and Processes



Office of the State Auditor
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Key Points Of Report

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Key Facts And Findings

- Internal controls over automated systems at the Texas State Treasury Department help protect the State's cash and securities. The Treasury held investments worth \$8.2 billion at the end of the 1994 fiscal year.
- The Treasury has not adequately documented automated applications or sufficiently cross-trained employees to back up key data processing personnel. This is particularly true of an extensive array of Lotus 1-2-3 spreadsheets vital to the Treasury's cash management and investment functions.
- If the Treasury and the Comptroller of Public Accounts merge, the Comptroller should ensure that functions involving the custody of cash or investments remain segregated from its existing responsibilities. This would reduce the risk of errors or inappropriate actions and give the State's leaders greater assurance that assets are protected.
- Eliminating the Treasury's Fund Post System may be possible if the capabilities of USAS expand to include tracking actual cash balances. Doing so would eliminate reconciling errors due to timing differences between the two systems and increase efficiency. It would also allow for the accumulation of all State cash transactions in one system.
- Combining the Treasury's Cash Flow Forecasting Department with the Comptroller's Revenue Estimating Division could result in a more efficient process, if the Treasury and Comptroller merge their agencies.
- The Treasury and the Comptroller could improve procedures for recording agency securities transactions. As of August 31, 1994, the Treasury held \$460 million of these securities.

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This financial audit was conducted in accordance with Government Code, § 321.0133.

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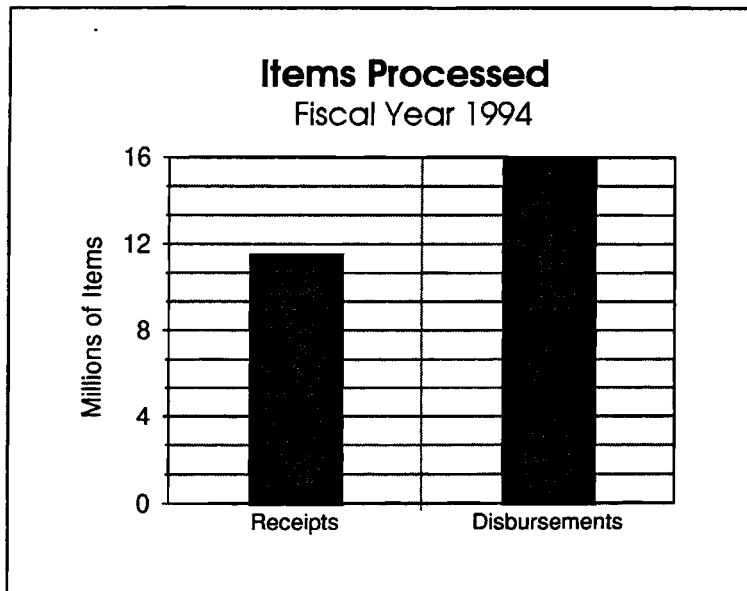
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Executive Summary

Internal controls over automated systems at the Texas State Treasury Department help protect the State's cash and securities. However, the controls should be improved to ensure continued operations without key personnel.

The Treasury Protects the State's Cash and Securities

During fiscal year 1994, the Treasury processed 11.5 million receipts and 15.9 million disbursements, totaling \$66 billion for each. In addition, the Treasury held investments worth \$8.2 billion at the end of the fiscal year.



The following internal controls are designed to ensure that the Treasury fulfills its mission to protect, manage, and invest the State's cash and securities:

- a matching process to ensure the Treasury pays only valid warrants
- a matching process to ensure only deposits received at the Treasury are posted to USAS
- segregated duties
- numerous reconciliations between automated applications and with outside parties

Improve Cross-Training of Programmers and Documentation of Automated Applications

The Treasury has not adequately documented automated applications or sufficiently cross-trained employees to back up key data processing personnel.

Changes to automated processes may be difficult, expensive, or impossible without adequate documentation, particularly when a key person leaves the organization. In addition, inadequate documentation may affect the ability to train new personnel to maintain the system. These effects will become more significant if a proposed merger of the Treasury with the Comptroller occurs.

We recommend that the Treasury continue to document its network of Lotus 1-2-3 spreadsheets and other automated processes. We also recommend that the Treasury back up programmers and others responsible for operating and maintaining key systems.

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Critical Controls Should Remain in Place If the Treasury Merges with the Comptroller

To safeguard the State's assets, functions performed by the following Treasury sections should remain organizationally segregated from the Comptroller's existing responsibilities:

- Item Processing
- Funds Transfer
- Investments
- Texas Treasury Safekeeping Trust Company
- Fiscal Accounting

These sections have custody of cash receipts, cash disbursements, or investments.

USAS Could Track Actual Cash Balances

Eliminating the Treasury's Fund Post System may be possible if the capabilities of USAS expand to include tracking actual cash balances. Doing so would eliminate reconciling errors due to timing differences between the two systems and increase efficiency. It would also allow for the accumulation of all State cash transactions in one system.

Modifications to allow USAS to take over this new role would include:

- new general ledger accounts
- new cash control financial table balance types
- T-Code profile changes and additions
- new transactions
- other technical changes

The Comptroller should examine the cost-benefit of modifying USAS versus retaining Fund Post before moving ahead on this issue.

Treasury's Cash Flow Forecasting Section Could Merge with the Comptroller's Revenue Estimating Division

Combining the Treasury's Cash Flow Forecasting Department with the Comptroller's Revenue Estimating Division could increase efficiency, if the Treasury and the Comptroller merge.

The cash flow forecasts done by these two agencies focus on different areas and do not duplicate each other. However, the skills to produce the forecasts are similar. Also, the Treasury and Comptroller personnel preparing these forecasts interact frequently in the course of their work.

We recommend that the Treasury's Cash Flow Forecasting Department combine with the Comptroller's Revenue Estimating Division, if those two agencies merge.

Improve Controls over Agency Securities Management

The Treasury and the Comptroller could improve procedures for recording agency securities transactions. Procedures currently in use do not ensure that reconciliations between USAS and the Treasury detect all errors.

We recommend that the Treasury work with the Comptroller to change agency securities procedures to:

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- Delegate to agencies the responsibility for entering agency securities transactions into USAS.
- Give the Treasury responsibility for reconciling agency securities deposited or withdrawn against transactions recorded in USAS by agencies.
- Enhance USAS to provide the appropriate reports to the Treasury.
- Ensure agencies receive USAS training to make these entries.

Summary of Management's Responses

Treasury management is in agreement with the recommendations which impact the Treasury as a separate agency. Final decisions regarding the recommendations related to the potential merger of the Treasury and the Comptroller's Office will be made by Comptroller's management.

Treasury's Status as a Going Concern is Up to the Voters

The 74th Texas Legislature approved a resolution to place before the voters a proposed constitutional amendment that would abolish the Treasury on September 1, 1996. The Comptroller would take over the duties of the Treasury. Texas citizens will vote on the issue on November 7, 1995.

Summary of Audit Objective and Audit Scope

We conducted this audit to:

- Identify controls provided by the Treasury for the State's cash and investment functions.
- Identify controls that should stay in place if a merger with the Comptroller occurs.
- Determine whether documentation of automated applications is adequate.
- Determine the impact if key data processing personnel were to leave the Treasury.

The scope of the audit included consideration of the Treasury's automated applications, including those on the mainframe and local area network. The scope also included reviewing Treasury divisions and departments significant to the cash receipts, cash disbursements, and investments processes.

Subsequent Audits

The State Auditor's Office is conducting a review of the State's investment practices. The objectives of this subsequent audit are to:

- Evaluate the management controls over state agencies' and universities' investment practices.
- Analyze state agencies' and universities' investment performance.
- Determine if a uniform performance calculation method and reporting format can be used by state agencies and universities.

The scope of this audit includes a visit to the State Treasury Department.

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Section 1:

The Treasury Protects the State's Cash and Securities

The Treasury is a vital part of the State of Texas' money management process. It acts as a bank, managing funds for various state agencies. Its employees perceive it as the agency that controls the State's cash. Agencies in such a position must have extensive internal controls to ensure the accuracy and integrity of its financial records.

The Treasury receives, invests, and cares for all money deposited to state funds and accounts. It also reviews and pays warrants issued by the Comptroller plus certain warrants issued by the Texas Employment Commission and the Department of Human Services.

- The Warrant System application matches all warrants presented for payment against a file of outstanding warrants. This matching process ensures that warrants paid by the Treasury are valid.
- The Treasury controls which deposits are posted to USAS by matching agency deposits entered in USAS with deposits received at the Treasury. Reconciliations are in place to ensure fund balances are accurate before allocating interest to state agencies with balances at the Treasury.
- The Treasury reconciles its:
 - bank records to statements from local depository banks
 - bank and investment records to its fund accounting records
 - fund accounting records to the Comptroller's USAS records
 - transfers between banks to statements from the banks
 - investment records and Funds Allocation Network (FAN) System spreadsheets to the Federal Reserve Bank

The Treasury's investment process is a sophisticated, critical function for the State. The Investment Division must have accurate information regarding cash available to invest. Timing is fast-paced, with traders buying and selling hundreds of millions of dollars of securities daily. Delays or breakdowns could leave money uninvested overnight or over the weekend, costing the State significant interest revenue.

The Treasury deposits and invests revenues quickly to maximize interest earnings. Several cash management programs, including lockbox, deposit concentration, direct deposit, and the Texas Network for Electronic Transfers (TEXNET), speed the flow of revenues into interest-bearing accounts. More than 4,000 companies participate in TEXNET, paying an average of \$1.3 billion per month in taxes.

A direct account with the Federal Reserve System (through the Texas Treasury Safekeeping Trust Company) allows the Treasury to provide nearly all the major services of a private financial institution. Texas is one of only two states that has direct access to the Federal Reserve.

Section 2:

Improve Cross-Training of Programmers and Documentation of Automated Applications

The Treasury has not adequately documented automated applications or sufficiently cross-trained employees to back up key data processing personnel.

The Treasury lacks documentation showing all the links, formulas, and macros incorporated into an extensive array of Lotus 1-2-3 spreadsheets linked together on the local area network (LAN). These spreadsheets are vital to the State's cash management and investment functions.

One individual created and maintains most of the spreadsheets. The Treasury does not have anyone trained to operate the system in his absence.

The Treasury has not adequately documented several other automated processes, including the Investment Management, Interest Allocation, and Depository Support applications.

The Treasury has hired an employee specifically to document the agency's data processing applications. Since then, application documentation has improved significantly. In addition, the employee is beginning to document the network of Lotus 1-2-3 spreadsheets. However, the formulas and macros involved in the network's spreadsheets remain largely undocumented.

Changes to automated processes may be difficult, expensive, or impossible without adequate documentation, particularly when a key person leaves the organization. In addition, inadequate documentation may affect the ability to train new personnel to maintain the system. These effects will become more significant if Texas voters approve a proposed merger of the Treasury with the Comptroller.

We recommend that the Treasury continue to document its network of Lotus 1-2-3 spreadsheets and other automated processes. We also recommend that the Treasury back up programmers and others responsible for operating and maintaining key systems.

Management's Response:

We are in agreement with the recommendations made and have implemented a process to strengthen these areas.

Critical Controls Should Remain in Place if the Texas State Treasury Department Merges with the Comptroller of Public Accounts

If the Comptroller assumes the duties of the Treasury, the State's decisionmakers should ensure that treasury-type duties remain properly segregated to protect state assets from errors or irregularities. Good business practices include a *segregation of duties*, which means duties are divided (or "segregated") among different people to reduce risks of errors or inappropriate actions. A proper segregation of duties requires that:

- Responsibility for depositing revenues is segregated from the responsibilities for deposit preparation and maintaining accounting records.

Voters to Determine Treasury's Future

The 74th Texas Legislature approved a resolution to place before voters a constitutional amendment to abolish the Treasury on September 1, 1996. The Comptroller would take over the duties of the Treasury. Texas citizens will vote on the issue on November 7, 1995.

- Responsibility for disbursement (i.e., warrant) processing is segregated from the responsibilities for disbursement preparation and for maintaining accounting records.
- Responsibility for initiating, evaluating, and approving investment transactions is segregated from the responsibility for maintaining accounting records.

To safeguard the State's assets, functions performed by the following Treasury sections should remain segregated from the Comptroller's existing responsibilities, if the two agencies merge. These sections have custody of cash receipts, cash disbursements, or investments.

- *Item Processing:* The Item Processing Division is the starting point for cash transactions at the Treasury. It ensures that the State pays all legitimate warrants expeditiously and deposits all revenues quickly to maximize interest earnings. In fiscal year 1994, Item Processing handled 11.5 million checks and 15.9 million warrants.
- *Funds Transfer:* The Funds Transfer section manages the Treasury's depository accounts at clearing banks that hold state deposits. The section transfers funds from one account to another, primarily for the payment of state-issued warrants. They record the transfers in the Depository Support system on the Treasury's mainframe computer.
- *Investments:* The Investment Division is responsible for investing all State funds held by the Treasury. The investment process primarily involves the Depository Support system and the Investment Management system, both systems exist on Treasury's mainframe computer. It also involves an array of Lotus 1-2-3 spreadsheets linked together on the Treasury's local area network.

At the end of fiscal year 1994, the Treasury held investments worth \$8.2 billion.

- *Texas Treasury Safekeeping Trust Company:* Through the Trust Company, the Treasury has direct access to the Federal Reserve System. This allows the Treasury to bring in-house transactions that previously had to go through another provider (such as a bank). Having direct access to the Federal Reserve increases the speed at which the Treasury can complete investment transactions.
- *Fiscal Accounting:* The Fiscal Accounting section is responsible for maintaining accounts on the Fund Post (fund accounting) and Depository Support (bank accounting) systems on the Treasury's mainframe computer. If Fund Post is consolidated into USAS (see Section 4-A below), the State will still need a separate accounting section to maintain the bank accounting system and reconcile to USAS.

Section 4:

Certain Treasury Functions May be Compatible with Existing Comptroller Functions

Section 4-A:

USAS Could Track Actual Cash Balances

Eliminating the Treasury's Fund Post System may be possible if the capabilities of the Uniform Statewide Accounting System (USAS) expand to include tracking actual cash balances. Doing so would eliminate reconciling errors due to timing differences between the two systems and increase efficiency. It would also allow for the accumulation of all State cash transactions in one system.

The control provided by Fund Post should continue. With the start-up of USAS in 1994, the Comptroller's old method of reconciling to the Treasury proved ineffective. USAS requires a higher level of sophistication in the reconciliation process. This process had not been perfected when USAS became the State's primary accounting system. Fund Post allowed the Treasury to balance to their internal bank records and continue processing. It also allowed the Comptroller to find out-of-balance items in USAS and correct records at the agency fund level.

Fund Post does not duplicate USAS. Timing differences cause transactions to post to one system and not the other. For example, State warrants post to USAS when written; the transactions post to cash in Fund Post when paid. Conversely, deposits post to Fund Post when received by the Treasury; they post to USAS only after the depositing agency enters the transaction into USAS and the Treasury receives it.

Also, a substantial number of warrants issued by the Texas Employment Commission and the Department of Human Services are recorded in detail in Fund Post and only in

summary in USAS. The same is true for payrolls processed by the State's Uniform Statewide Payroll System (USPS). The capacity of USAS would have to expand to capture and store payment data associated with these warrants.

Modifications to allow USAS to take over this new role would include:

- new general ledger accounts
- new cash control financial table balance types
- T-Code profile changes and additions
- new transactions
- new procedures to reconcile to the bank accounting system
- other technical changes

The Comptroller should examine the cost-benefit of modifying USAS versus retaining Fund Post before moving ahead on this issue.

Management's Response:

The ultimate decision for this recommendation will reside with the Comptroller's Office. As with the implementation of any new system or the enhancement of an existing system, the decision to modify USAS versus retain Fund Post will require extensive cost-benefit analysis. With either decision, our primary concern is to maintain the existing level of accounting controls.

Section 4-B:

The Treasury's Cash Flow Forecasting Section Could Merge with the Comptroller's Revenue Estimating Division

Combining the Treasury's Cash Flow Forecasting Department with the Comptroller's Revenue Estimating Division could increase efficiency, if the Treasury and the Comptroller merge their agencies.

The Treasury's Cash Flow Forecasting Department forecasts statewide expenditures and revenue collections to assess the future cash needs of the State. Based on those projections, the Treasury issues Tax and Revenue Anticipation Notes (TRANs) to cover cash shortages. In fiscal year 1995, the Treasury issued \$2.2 billion in TRANs.

The Comptroller's Revenue Estimating Division projects trends in revenues and expenditures to certify whether revenues will be sufficient to cover the State's appropriations. The Comptroller also monitors and reports on the Texas economy, projects the State's cash flow position, and develops fiscal notes on legislation affecting state revenues.

The cash flow forecasts done by these two agencies focus on different areas and do not duplicate each other. However, the skills to produce the forecasts are similar. Also,

the Treasury and Comptroller personnel preparing these forecasts interact frequently in the course of their work.

We recommend that the Treasury's Cash Flow Forecasting Department combine with the Comptroller's Revenue Estimating Division, if those two agencies merge. In addition, we recommend that the cash flow forecasting function remain accessible to auditors, should the departments combine.

Management's Response:

We agree with the information provided concerning the functions of the Cash Flow Forecasting Section. Additionally, this section provides forecast information vital to our Investment Division. The information is used in making investment decisions and assuring that the State's liquidity needs are met.

Section 5:

Improve Controls over Agency Securities Management

The Treasury and the Comptroller could improve procedures for recording agency securities transactions. Agency securities are financial instruments that state agencies deliver for safekeeping to the Treasury. As of August 31, 1994, the Treasury held \$460 million of these securities.

Procedures currently in use do not ensure that reconciliations between USAS and the Treasury detect all errors. When state agencies deliver or withdraw agency securities, the Treasury records the transaction and forwards copies of the deposit or withdrawal forms to the Comptroller for entry into USAS. The Comptroller then reconciles USAS back to the Treasury's records. Thus, if the Treasury omits a transaction, the Comptroller will omit it as well and the error will go undetected.

Good management practice includes appropriate error-checking techniques to prevent and detect errors that may occur. This gives management assurance that they will quickly detect intentional and unintentional errors.

We recommend that the Treasury work with the Comptroller to change agency securities procedures to:

- Delegate to agencies the responsibility for entering agency securities transactions into USAS.
- Give the Treasury responsibility for reconciling agency securities deposited or withdrawn against transactions recorded in USAS by agencies.
- Enhance USAS to provide the appropriate reports to the Treasury.

- Ensure agencies receive USAS training to make these entries.

These changes will eliminate the reconciliation performed by the Comptroller's Office to verify its own entries to Treasury records.

Management's Response:

Implementation of this recommendation will improve the current process and provide for a more accurate reconciliation.

Objectives, Scope, and Methodology

Objectives

The audit objectives were to:

- Recommend the controls and functions at the Treasury that should continue to exist if the Treasury and Comptroller merge.
- Gain an understanding and document the cash receipts, cash disbursements, and investments processes at the Treasury, including the automated systems and related manual controls (such as reconciliations).
- Evaluate and report on those controls at the Treasury that are important to the statewide processes for cash receipts and disbursements (i.e., the processes involving USAS and other agencies).
- Evaluate and report on the internal control structure relating to the Treasury's investments process based on our understanding.
- Report the results of any application reviews performed.

In addition, the audit focused on answering the following questions:

- Are there controls provided by the Treasury for statewide cash and investment transactions?
- Are there controls that the State should maintain if a merger with of the Treasury and the Comptroller were to occur?
- Is there adequate system-level documentation describing the processes at the Treasury? Are the applications and related data involved in the cash receipts, cash disbursements, and investments processes adequately documented?
- Would there be an impact if programmer/analysts for applications involved in the cash receipts, cash disbursements, and investments processes were to leave the Treasury?

Scope

The scope of this audit included gaining an understanding of controls over the State's cash receipts, cash disbursements, and investments processes, both inside and outside the Treasury. The scope also included a review of other systems within the Treasury that impact the State's cash management.

The emphasis of this audit was on controls over automated systems and related manual processes. It included a review of the following automated applications residing on the Treasury's mainframe computer:

- Warrant System
- Fund Post application
- Depository Support application
- Investment Management System

In addition, we reviewed the following automated applications involved in the cash receipts, cash disbursements, and investment processes that reside on the Treasury's local area network (LAN):

- Interest Allocation System
- Minicomputer systems operated by the Item Processing Division
- Funds Allocation Network (FAN), which is an extensive array of Lotus 1-2-3 spreadsheets residing on the LAN

The work over automated applications was limited to identifying and reviewing controls in place. We did not test those controls and have not made an assessment as to their effectiveness.

The audit also included a review of operations in the following Treasury divisions and departments:

- Item Processing Division
- Information Resources Division (IRD)
- Investment Division
- Cash Management Programs
- Cash and Securities Management
- Unclaimed Property Division

The consideration of the State's processes for cash receipts and disbursements included obtaining an understanding of the Uniform Statewide Accounting System (USAS) and how the Treasury interacts with USAS. We also reviewed reconciliation processes within the Treasury, between the Treasury and USAS, and between the Treasury and financial institutions.

Methodology

The methodology used on this audit consisted of collecting information, performing audit tests and procedures, analyzing the information, and evaluating the information against preestablished criteria.

Information collected to accomplish our objectives included the following:

- Interviews with members of the management and staff of the Treasury
- Interviews with members of the management and staff of the Comptroller
- Documentary evidence such as:
 - Treasury policy and procedure manuals
 - Documentation of automated processes
 - Program documentation
 - Agency Strategic Plans
 - Other documents, memoranda, and publications of the Treasury
- Comptroller documents (including Texas Performance Review reports and internal audit working papers)
- Documentation received from other states regarding their treasury and comptroller operations
- Observations of operations within selected Treasury divisions
- Review of State statutes, both existing and proposed

Analytical techniques included:

- Control review
- Process flowcharting and review
- Analysis of USAS capabilities
- Comparison of Treasury and Comptroller functions

Criteria used:

- *State Auditor's Office Methodology Manual*
- *Generally Accepted Accounting Principles*
- Other states
- Other standard audit criteria established before the beginning of fieldwork

Fieldwork was conducted from December 5, 1994, through May 19, 1995. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

There were no significant instances of noncompliance with these standards.

The following members of the State Auditor's Office staff performed the audit work:

- R. Walton Persons, CPA (Project Manager)
- Anne Marie Palmer, CPA, CISA (Project Manager)
- David Conner, CISA
- Edward K. Pier, CPA
- Beverly Schulke, CPA
- Beverly Wood, CPA

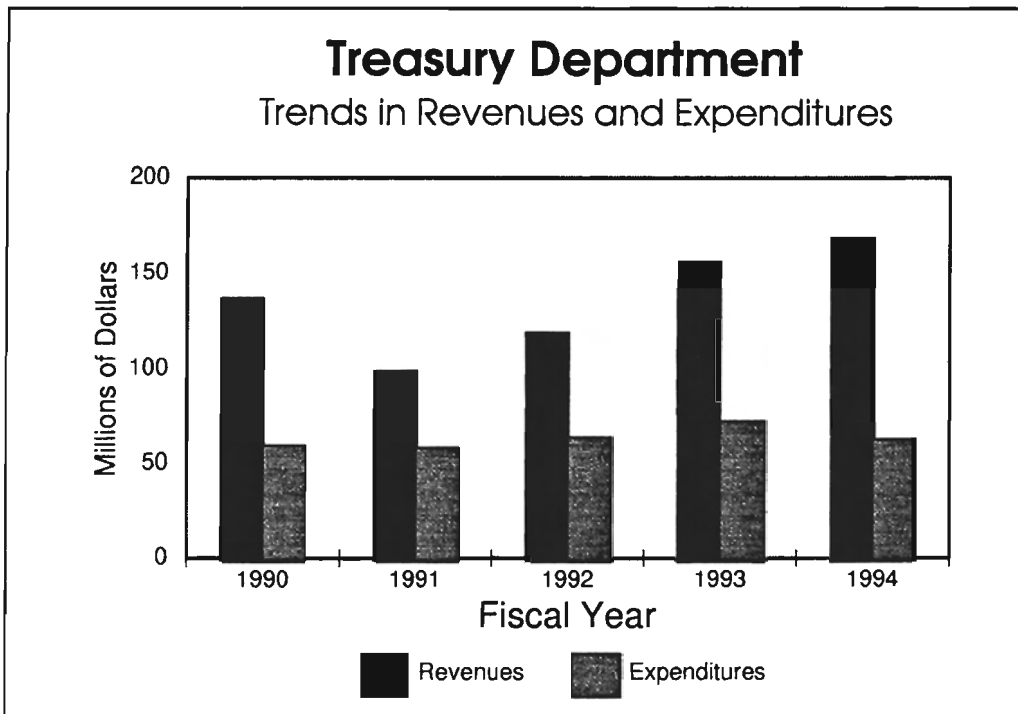
- Charles R. Hrcir, CPA (Audit Manager)
- Craig D. Kinton, CPA (Director)

Agency Financial Information

At the end of fiscal year 1994, the Treasury had assets of \$8,258,240,540 and liabilities of \$8,234,631,766. The Treasury's liabilities were greater than any other Texas state agency's. The Treasury's legislative appropriations for fiscal years 1994 and 1995 are as follows:

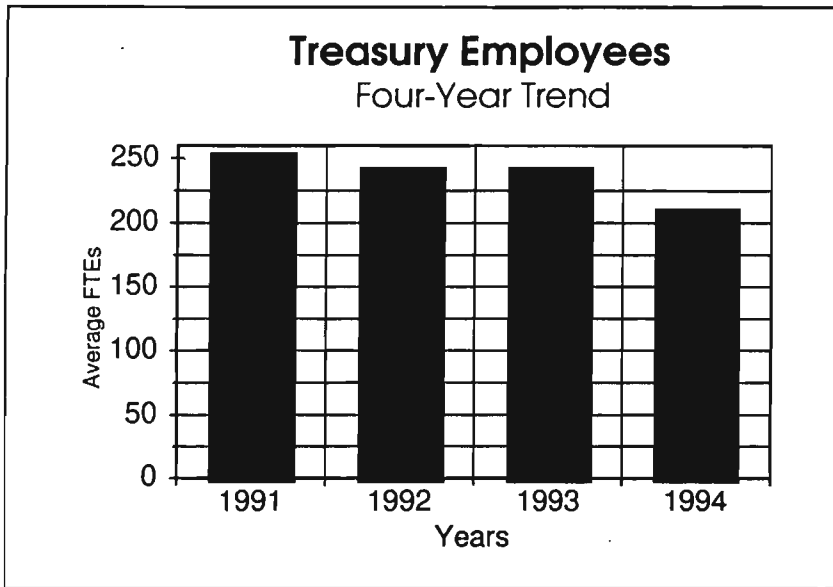
- Fiscal Year 1994 Appropriations: \$40,969,708
- Fiscal Year 1995 Appropriations: \$40,723,868

The Treasury's revenues typically exceed its expenditures by a significant amount. Revenues have increased for the last three years and totaled \$168 million in fiscal year 1994, versus expenditures of \$62 million.



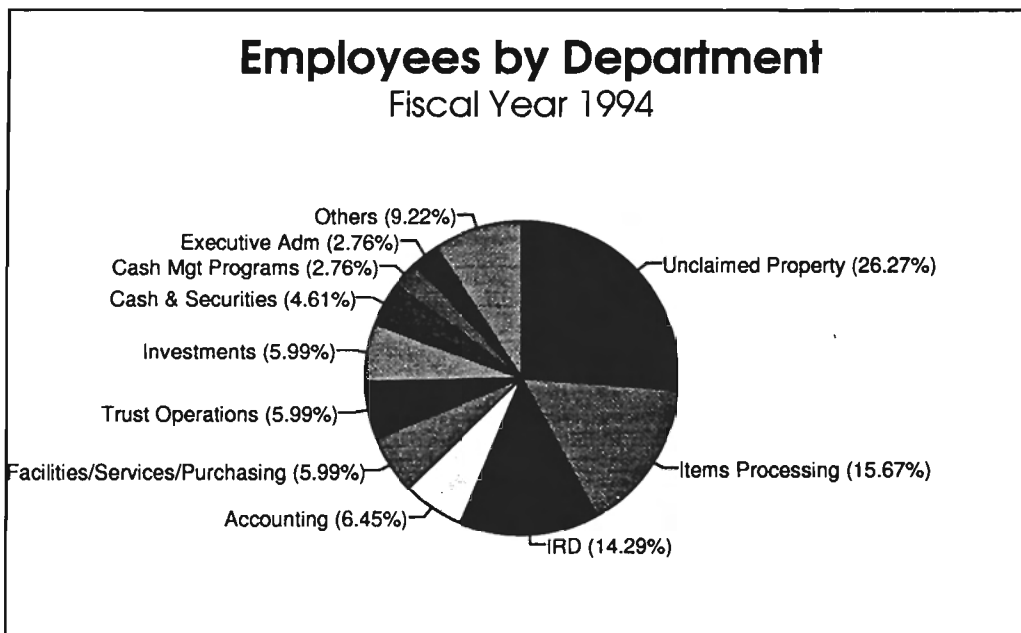
Source: State Auditor's Office (Unaudited)

The number of Treasury employees dropped during fiscal year 1994, after three years of relative stability. Treasury employees totaled 210.75 for fiscal year 1994, down 13 percent from fiscal year 1993.



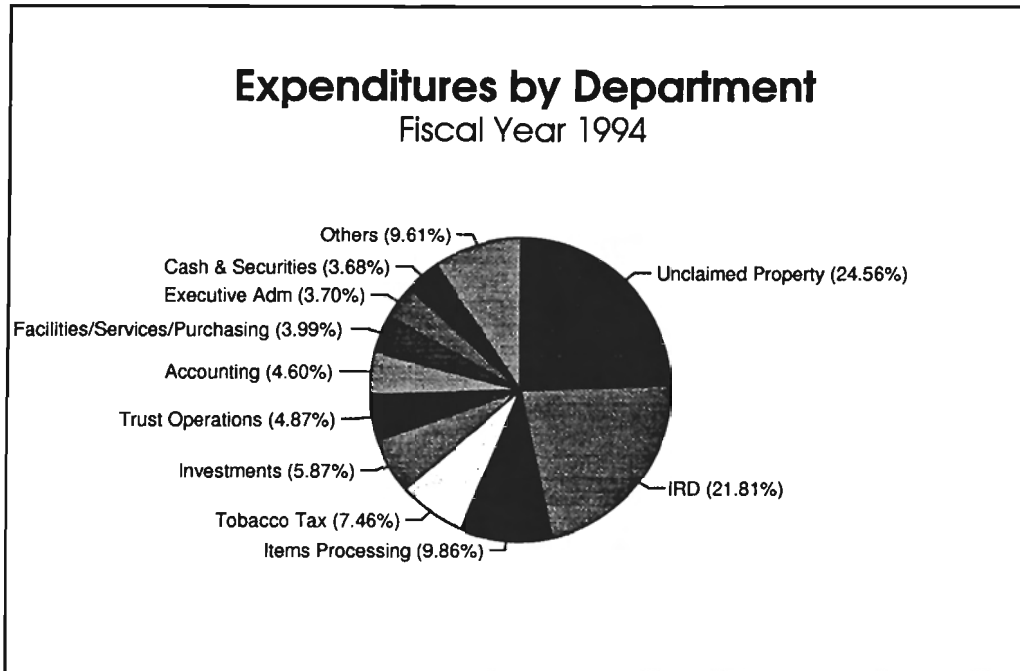
Source: State Auditor's Office (Unaudited)

Over one-half of the Treasury's employees work in the Unclaimed Property, Items Processing, or Information Resources divisions. These divisions are home to 122 employees, 56 percent of the Treasury's total workforce.



Source: Texas State Treasury (Unaudited)

The Unclaimed Property, Items Processing, and Information Resources Divisions account for \$5.8 million, or 56 percent, of the Treasury's total expenditures for fiscal year 1994.



Source: Texas State Treasury (Unaudited)

At the end of fiscal year 1994 the Treasury's volume of cash and short-term investments in all funds totaled \$821 million, ranking the Treasury third among State agencies.

<i>State Rank</i>	<i>Agency</i>	<i>Cash and Short-Term Investments</i>
1	Teacher Retirement System	\$1,345,858,504
2	University of Texas System	918,099,785
3	Treasury Department	821,863,278
4	Texas Public Finance Authority	802,574,506
5	Texas Department of Transportation	679,351,981

Source: State Auditor's Office (Unaudited)

The Treasury's investments in all funds totaled \$7.3 billion at the end of fiscal year 1994, ranking the Treasury fourth among State agencies.

<i>State Rank</i>	<i>Agency</i>	<i>Investments</i>
1	Teacher Retirement System	\$32,001,200,052
2	Employees Retirement System	9,394,698,886
3	Central Education Agency	8,491,320,536
4	Treasury Department	7,354,989,520
5	University of Texas System	6,358,031,906

Source: State Auditor's Office (Unaudited)

The Treasury's interest and investment income for all funds in fiscal year 1994 totaled \$75 million.

Agency Profile

The Treasury is authorized by Article IV, §§ 1 and 23 of the Texas Constitution and by Chapter 404 of the Government Code. The Treasury's major functions include:

- protecting, managing, and investing the State's cash and securities
- paying the State's warrants
- administering the State's unclaimed property laws
- administering the State's cigarette and tobacco product laws and collecting the relevant taxes

The Treasury's Mission Statement

The mission of the Texas Treasury Department is to protect, manage, and invest the State's cash and securities, pay the State's warrants, administer the State's unclaimed property laws, and administer and enforce the State's cigarette and tobacco products laws and collect the relevant taxes.

The State Treasurer serves as the State's chief financial officer and, in this capacity, serves as secretary of the State Depository Board, as sole officer of the Texas Treasury Safekeeping Trust Company, and as a member of the State Banking Board, Bond Review Board, and Cash Management Committee.

The Treasury acts as the State's bank by processing deposits, warrants, and automated receipts and disbursements. It controls when deposits get posted to the State's books at the Comptroller's Office through use of an approval process in USAS. Also, the Treasury determines the State's cash position each day.

The Treasury's investment process is a sophisticated, critical function for the State. Each morning the Investment Division must have accurate information regarding cash available to invest. Timing is fast-paced, with Treasury traders buying and selling hundreds of millions of dollars of securities daily. Delays or breakdowns in the operation could leave money uninvested overnight or over the weekend, costing the State significant interest revenue.

The Treasury must deposit and invest all State revenues quickly to maximize interest earnings for the State. The Treasury has several cash management programs to speed the flow of revenues into interest-bearing accounts. These include lockbox, deposit concentration, direct deposit, and the Texas Network for Electronic Transfers (TEXNET). More than 4,000 companies participate in TEXNET, paying an average of \$1.3 billion per month in taxes.

Through the Texas Treasury Safekeeping Trust Company, the Treasury has a direct account with the Federal Reserve System and can provide nearly all the major services of a private financial institution. Texas is one of only two states in the nation that has direct access to the Federal Reserve.

Role of the Comptroller

In the existing structure of Texas state government, the Comptroller maintains the State's accounting "system of record." The State Treasurer is the keeper/custodian of all money deposited to the Treasurer. This division of responsibilities creates separate and dual controls to safeguard the State's assets.

To fulfill its responsibility, the Comptroller developed the Uniform Statewide Accounting System (USAS). USAS integrates the State's accounting, reporting, budgetary, and program cost/performance measurement systems. USAS became operational on September 1, 1993.

Treasury's Information Resources

The Treasury's information resources configuration consists of three distinct platforms:

- a Unisys mainframe
- two Bull minicomputers
- a local area network

Cash receipts, cash disbursement, and investment processes cross all three platforms, sometimes more than once during processing. This results in complicated processes that are difficult to follow. Several applications work together to provide information to various divisions. Changes to one application may require complimentary changes in other applications on other platforms.

Hardware and software at the State Treasury include the following:

	<i>Mainframe:</i> Unisys 2200/402	<i>Minicomputers:</i> Honeywell Bull DPS 6000	<i>LAN:</i> Netframe NF300 File Servers & IEM Token Rings
Operating System	Unisys OS 2200 Exec	Honeywell GCOS	Novell NetWare
Database Software	Unisys DMS 1100	<i>Not Applicable</i>	dBASE/Clipper
Security Package	Unisys Simon	Honeywell DPS 6000	Novell NetWare security on a Netframe server
Application Language	COBOL	COBOL	Clipper (<i>Note: Several "applications" are written in Lotus 1-2-3.</i>)
Major Applications Related to the Review	Fund Post, Warrants, Draft Processing, Depository Support, Interest Allocation, Investment Management	Item Processing	Funds Allocation Network (FAN), other Lotus 1-2-3 spreadsheets

Source: Texas State Treasury

The Treasury has gradually been moving from a mainframe to a network orientation, with all new system development on the network. The Information Resources Division requested \$170,000 for "mainframe rightsizing" for fiscal year 1996. Mainframe rightsizing is the Treasury's term for moving applications from the mainframe to the network.

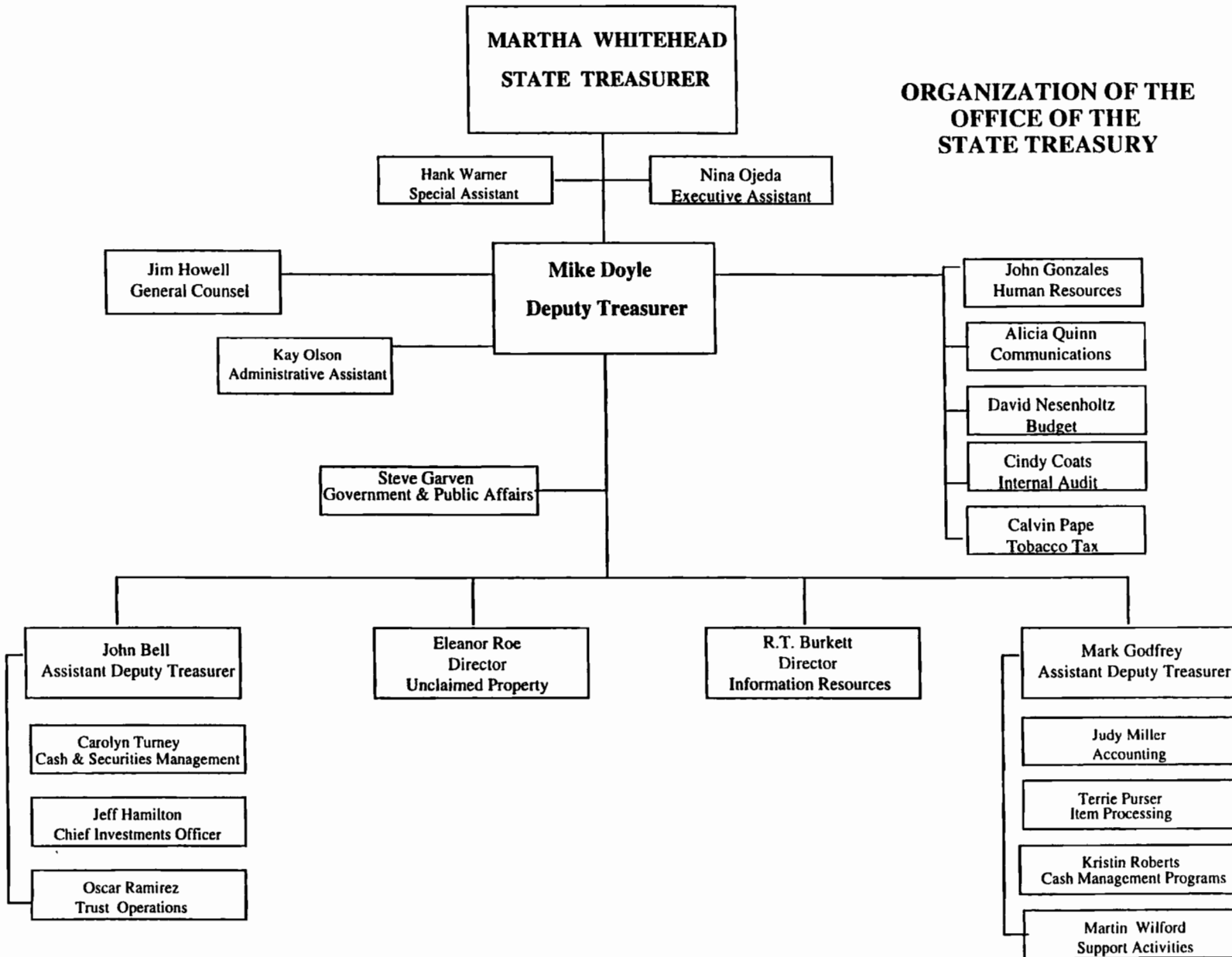
However, current network technology cannot handle batch processing of large data base files, so the large Fund Accounting Data Base (used primarily by the Fund Post system), must remain on the mainframe. The Information Resources Division has planned to move to a Unisys 2200/500 mainframe that is more powerful and less costly than the current model.

Treasury's continued existence is up to Texas voters

The 74th Texas Legislature approved a resolution to place before the voters a proposed constitutional amendment that would abolish the Treasury on September 1, 1996. The Comptroller would take over the duties of the Treasury. Texas citizens will vote on the issue on November 7, 1995.

ORGANIZATION OF THE OFFICE OF THE STATE TREASURY

Appendix 2.3:
Organization Chart



List of References

The books, articles, reports, etc., listed below are relevant to the issues discussed in this report:

American Institute of Certified Public Accountants. *Audits of State and Local Governmental Units, Revised Edition*. 1986.

Brady, Karen, CPA, CCM. "A Career to Treasure," *Today's CPA*, May/June 1995, 18-20.

State of Texas. Comptroller of Public Accounts. *Gaining Ground*. November 1994.

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_____. 74th Legislature, Regular Session. *Senate Bill 1128*. 1995

_____. 74th Legislature, Regular Session. *Senate Joint Resolution 1*. 1995.

_____. Treasury Department. *Annual Report for the Year Ended August 31, 1994*. November 1994.

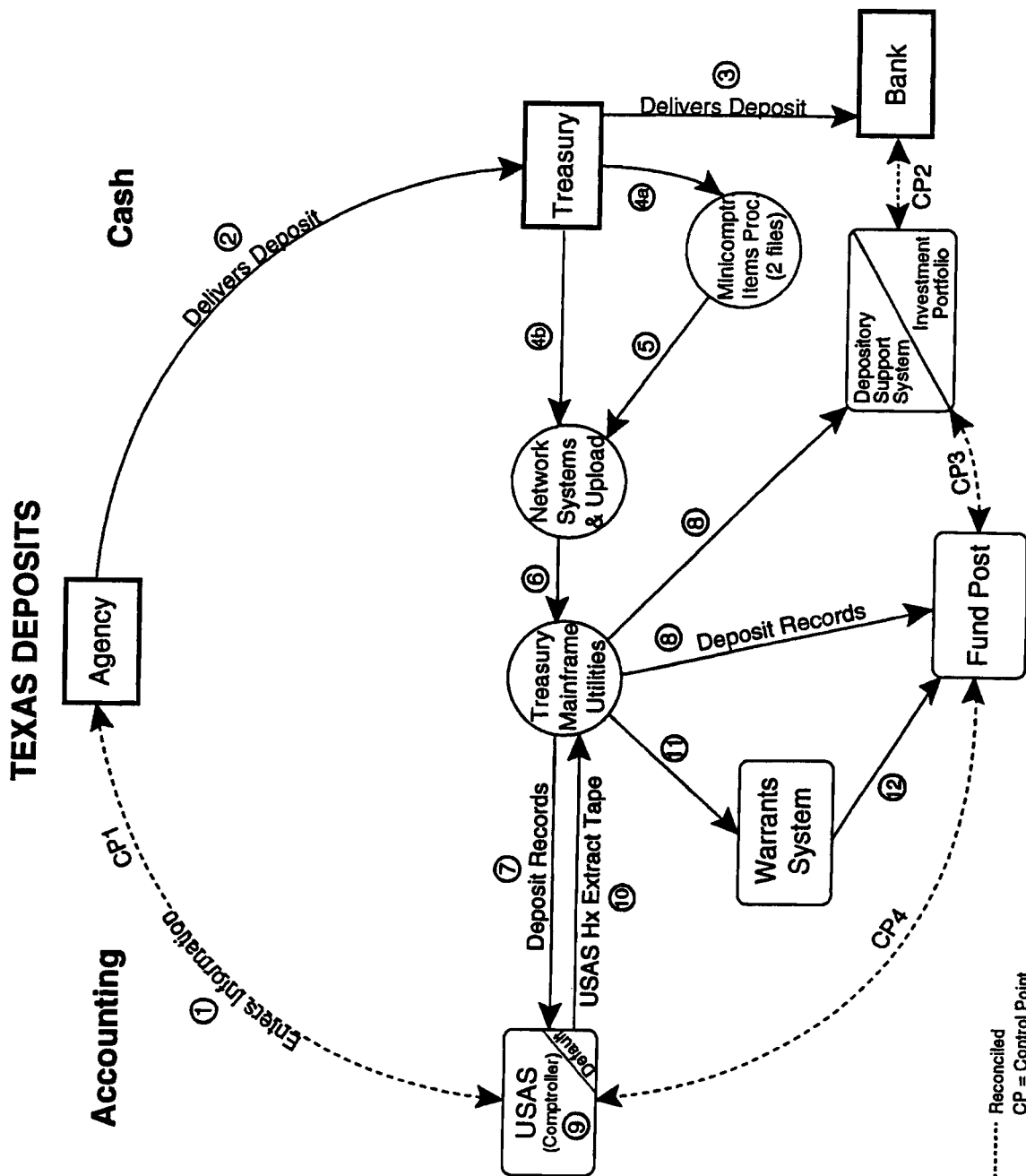
_____. Treasury Department. *Agency Information Resources Strategic Plan. Fiscal Year 1995 through 1999*. January 1995.

_____. Treasury. *Strategic Plan for the 1995 - 1999 Period*. June 1994.

_____. The University of Texas at Austin, Lyndon B. Johnson School of Public Affairs. *Guide to Texas State Agencies, Eighth Edition*. 1994.

Overviews of the State's Cash Receipts and Cash Disbursements Process

The flowchart below presents a high-level view of the flow of cash receipts through the State of Texas. Please refer to the narrative on the following page for descriptions of each step in the process.



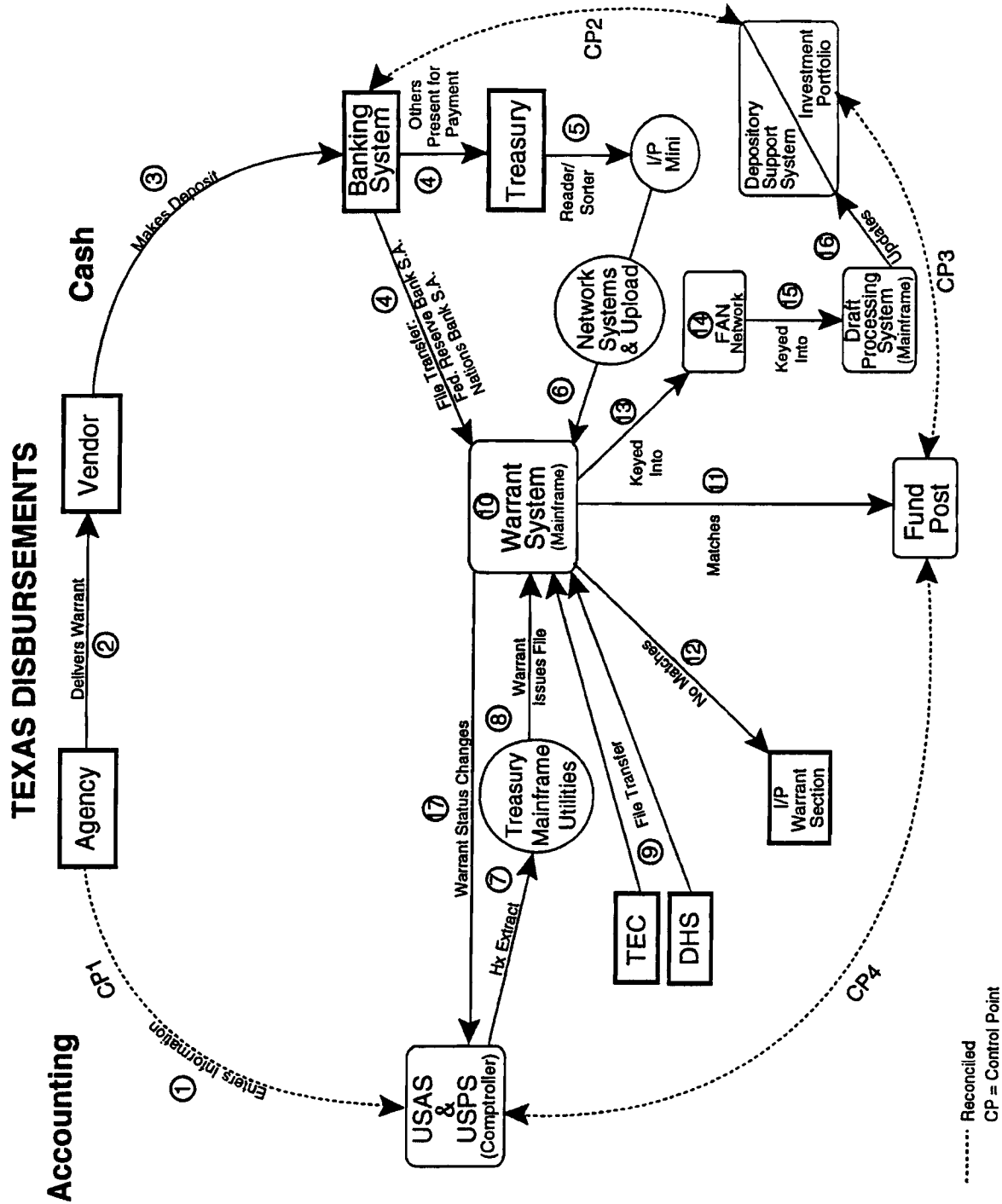
The State's Flow of Cash Receipts

Narrative

(See an accompanying flowchart on page 27.)

<i>Step</i>	<i>Description of Process</i>
1	Agencies enter or report deposit information into the USAS system.
2	Agencies make actual deposits to the Treasury.
3	The Treasury deposits money received from agencies into clearing banks.
4	<p>a. The Treasury's Item Processing Division enters agency deposit information into the Item Processing minicomputer.</p> <p>b. The Item Processing Division processes deposits from lockboxes, TEXNET, Treasury deposits made directly to banks via wire/tape and returned checks.</p>
5	At the end of each day, a file (called the "IP tape" by the Treasury and "MICR file" by the Comptroller) is created on the minicomputer and uploaded to the Treasury's network.
6	The network uploads the information to the Treasury's mainframe.
7	Deposit records (on the MICR file) are sent via file transfer from the Treasury's mainframe to the Comptroller for processing by USAS.
8	The Treasury's mainframe creates two files from the IP tape. One file is used by the Fund Post System for fund accounting purposes. That file and the second file of Treasury banking transactions are used by the Depository Support System for cash management purposes.
9	USAS matches deposit data entered by agencies to the deposit records entered by the Treasury. Deposit totals from agencies are compared with Treasury deposit totals. Those that are within specific tolerance levels are "posted" to USAS with differences posting to the agency's 9000 default fund. Deposit totals that exceed the tolerance levels and those that do not match with the Treasury's records will not post and must be researched by the agencies. This is meant to ensure that only correct deposit amounts post to USAS.
10	USAS sends a tape containing the USAS history extract file to the Treasury. This file contains detailed accounting data on <u>all</u> cash transactions for that day's processing.
11	The USAS history extract file is split into several files by the Treasury's Warrant System. The Fund Post System uses one detail file.
12	The Fund Post System compares the <i>agency number, document number, and date</i> in the detail file to records from Item Processing. This is the same comparison USAS does in step 9. In addition, the Treasury compares all other deposit information with USAS and posts the USAS detail to the Fund Post System.
<i>Control Points</i>	
CP1	Agencies verify deposits either with USAS or their own accounting systems, if they maintain one.
CP2	The Treasury reconciles its bank records (in the Depository Support System) with statements received from depository banks. The Treasury also reconciles its investment records with the Federal Reserve Bank.
CP3	Treasury reconciles its bank records (in the Depository Support and Investment Systems) to its accounting records (in the Fund Post System).
CP4	The Comptroller and the Treasury reconcile USAS to the Treasury's Fund Post System.

The flowchart on this page presents a high-level view of the flow of cash disbursements through the State. Please refer to the narrative on the following pages for descriptions of each step in the cash disbursements process.



The State's Flow of Cash Disbursements

Narrative

(See an accompanying flowchart on page 27.)

<i>Step</i>	<i>Description of Process</i>
1	Agencies enter information into the USAS system and generate warrants.
2	Agencies pick up warrants at the Comptroller's and send them to the recipients.
3	Recipients deposit the warrants in their banks. The warrants move through the banking system to the clearing banks.
4	<p>The clearing banks present the warrants to the Treasury for payment.</p> <ul style="list-style-type: none"> • <i>The Federal Reserve Bank and Nations Bank (both of San Antonio) present warrant information directly to the Treasury's mainframe via file transfer.</i> • <i>All other clearing banks physically present the warrants to the Treasury's Item Processing Division. (Individuals also present warrants for payment to the Treasury's walk-in tellers.)</i>
5	The Treasury runs the warrants through Item Processing's reader/sorter machine. The reader/sorter reads warrant data into a file on the minicomputer.
6	The network uploads the "warrants presented" file from the minicomputer to Treasury's mainframe.
7	The Comptroller sends data regarding USAS and USPS warrants to the Treasury via the USAS history extract file.
8	A utility program uploads the Warrant Issues file into the Warrant System on the mainframe.
9	The Texas Employment Commission and the Department of Human Services also generate warrants. Those agencies transmit data regarding their warrant issues to the Treasury via file transfer.
10	The Warrants System combines the Warrant Issues data and saves it to a hierarchical data base. Warrants presented for payment are then compared with outstanding warrants in the data base.
11	Warrants that match are paid and posted to the Fund Post System. <i>(Exceptions are warrants that match but may not be paid due to their status - canceled, stop pay, etc.)</i>
12	Warrants that fail to match are written to a Warrant Errors file and researched by the Item Processing Division's Warrant Section.
13	Item Processing personnel enter data paid warrants data into a lotus spreadsheet on the "Funds Allocation Network" (FAN). The data comes off reports printed from the Warrant System.
14	FAN calculates the amounts to pay the clearing banks by combining the daily warrants paid information with bank balance, investment, and other information.
15	The amounts due the clearing banks are keyed into the Draft Processing System. The amounts come from FAN.
16	The Draft Processing System prints drafts (for local banks) and wires (for out of town banks) to pay the clearing banks. It then posts the transactions to the Depository Support System (on the mainframe).
17	Each day the Treasury returns a tape containing warrant status changes (for example, from "issued" to "paid") to the Comptroller.
<i>Control Points</i>	
CPI	Agencies verify deposits either with USAS or their own accounting systems, if they maintain one.

Control Points

CP2	The Treasury reconciles its bank records (in the Depository Support System) with statements received from depository banks. The Treasury also reconciles its investment records with the Federal Reserve Bank.
CP3	Treasury reconciles its bank records (in the Depository Support and Investment Systems) to its accounting records (in the Fund Post System).
CP4	The Comptroller and the Treasury reconcile USAS to the Treasury's Fund Post System.

Comparison to Other States

Auditors contacted five states where it was understood that the state government did not have a separate treasury agency. The auditors asked officials about how their treasury and comptroller functions operate. The states selected were Alaska, Georgia, Hawaii, Montana, and New York, based on information received from the Texas State Treasury's Communications Department.

Alaska

The Treasury Division is in the Department of Revenue while the comptroller functions (statewide general accounting, payroll, and financial reporting) are handled by the Department of Administration's Division of Finance. The Department of Administration issues warrants and the Department of Revenue pays the warrants.

The Treasury Division handles debt management, cash management, marketable securities management, and real estate management. It also deposits and accounts for Alaska's receipts.

It appears the treasury and comptroller functions in Alaska are segregated.

Georgia

At one time, Georgia combined the treasury and comptroller functions. Today, however, the state completely segregates these functions.

Hawaii

The Department of Accounting and General Services is responsible for centralized accounting. It develops and maintains Hawaii's accounting system, maintains fund control, is responsible for financial reporting, and issues warrants. The Department of Budget and Finance receives, safekeeps, invests, lends, and disburses money on deposit in the State Treasury. It also administers Hawaii's unclaimed property programs.

It appears the treasury and comptroller functions in Hawaii are segregated.

Montana

The Department of Administration is responsible for tax collections and accounting functions. The Treasury Unit within the Accounting Department is responsible for reconciling and balancing bank records and investment records. An independent Board of Investments within the Department of Commerce makes all the investment decisions and hires an investment officer.

It appears the treasury and comptroller functions in Montana are segregated.

New York

The Office of the State Comptroller issues New York's payments and the Treasury approves the payments. The Treasury does the auditing of expenditures and attests to the validity. The Treasury is outside the Office of the State Comptroller.

It appears the treasury and comptroller functions in New York are segregated.

None of the states we contacted combine the major treasury and comptroller functions. Several states appear to segregate the functions under several departments.

Copies of this report have been distributed to the following:

Legislative Audit Committee

Honorable James E. "Pete" Laney, Speaker of the House, Chair
Honorable Bob Bullock, Lieutenant Governor, Vice Chair
Senator John Montford, Chair, Senate Finance Committee
Senator Kenneth Armbrister, Chair, Senate State Affairs Committee
Representative Robert Junell, Chair, House Appropriations Committee
Representative Tom Craddick, Chair, House Ways and Means Committee

Governor of Texas

Honorable George W. Bush

Legislative Budget Board

Sunset Advisory Commission

Texas State Treasury Department

The Honorable Martha Whitehead, Texas State Treasurer
Mr. Michael D. Doyle, Deputy Treasurer
Ms. Cynthia Coats, Internal Auditor

Texas State Comptroller of Public Accounts

The Honorable John Sharp, Comptroller of Public Accounts
Mr. Bob Coalter, Inspector General
Mr. Art Martinez, Internal Auditor