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A Special Report on
the Senate's *Annual Financial Report* and
the Uniform Statewide Accounting System
February 1997

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Key Points of Report

A Special Report on the Senate's Annual Financial Report and the Uniform Statewide Accounting System

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Overall Conclusion

Opportunities exist to improve the accuracy of financial information included in the Senate's Annual Financial Report (AFR) and the Uniform Statewide Accounting System (USAS). Cash and consumable inventory balances in the fiscal year 1995 AFR were materially accurate. However, accounts payable, fund balance, fixed asset, revenue, and expenditure accounts in the AFR and USAS contained errors. The errors appeared to be unintentional mistakes by Senate accounting staff, rather than deliberate misrepresentations. Additionally, some improvements to internal controls would help identify travel expenses that have already been reimbursed and provide more detailed information about spending and slow-moving inventory items. Senate staff members have already taken steps to address the errors and control weaknesses noted in this report.

Key Facts and Findings

- Fiscal year 1995 cash and consumable inventory balances (approximately \$6.3 million and \$389,000, respectively) in the AFR were materially accurate according to generally accepted accounting principles and *Reporting Requirements for Annual Financial Reports of State Agencies* (Comptroller Reporting Requirements).
- Errors in the fiscal year 1995 AFR significantly affected amounts reported for accounts payable, fund balance, fixed assets, and some revenues and expenditures. Errors were considered significant if they totaled 15 percent or more of the reported amount. Fiscal year 1995 expenditures and revenues for the Senate in the Uniform Statewide Accounting System also contained significant errors. The Senate Auditor adjusted the fiscal year 1996 AFR to correct the effects of the prior year's errors.
- An agency fund should be included in future AFRs to report activity in an employee service account. The amount disbursed from this account during fiscal year 1995 was approximately \$67,000.
- During fiscal year 1995, procedures for processing travel vouchers did not ensure identification of expenses that had already been paid. Three vouchers out of 224 tested included costs that had already been reimbursed to employees. Additionally, the accounting records did not provide detailed travel expenditure and furniture purchase information, nor did they identify slow-moving or obsolete inventory items. The Senate Auditor is developing procedures to address these issues.

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This audit was conducted in accordance with government Code, Section 321.1035 at the request of the Chair of the Senate Committee on Administration.

Issues and Recommendations

Overall Conclusion

Opportunities exist to improve the accuracy of financial information in the Senate's *Annual Financial Report* (AFR) and the Uniform Statewide Accounting System (USAS). Cash and consumable inventory balances in the fiscal year 1995 AFR were materially accurate. However, accounts payable, fund balance, expenditure, revenue, and fixed asset accounts in the AFR and USAS contained errors totaling 15 percent or more of the reported amount. The errors appeared to be unintentional mistakes by Senate accounting staff, rather than deliberate misrepresentations.

Improvements to some internal controls would identify items on travel vouchers that have already been reimbursed and would provide more detailed information about spending and required inventory levels. Detailed information about travel costs can help identify ways to reduce those costs. Additionally, tracking purchase dates of inventory can identify slow-moving or obsolete items that need to be sold or discarded.

The Senate Auditor has already taken steps to improve financial accounting, reporting, and internal controls. A new Senate Auditor was hired effective September 1, 1996, and is responsible for the accounting and reporting function. He has already determined how prior-year errors affected the 1996 AFR and made the necessary adjustments. Additionally, he is implementing procedures to prevent errors in the future, detect overpayment of travel expenses, and provide more detailed information about spending. During the audit, both the former and current Senate Auditors were helpful in providing information and discussing ways to improve the financial accounting and reporting process.

Section 1:

Continue to Improve Financial Reporting in the *Annual Financial Report* and the Uniform Statewide Accounting System

Cash and consumable inventory balances (approximately \$6.3 million and \$389,000, respectively) in the AFR as of August 31, 1995, were materially accurate. However, we noted errors in the accounts payable, fund balance, fixed asset, revenue, and expenditure accounts. Fiscal year 1995 expenditures and revenues in USAS contain the same errors found in the AFR. Additionally, employee service account activity should be reported in future AFRs as an agency fund.

The Senate Auditor has already taken action to ensure the effects of prior-year errors are corrected in the fiscal year 1996 AFR. Additionally, he is reviewing the current account structure and developing procedures to help ensure prevention or timely detection of errors.

Section 1-A:

Some Accounts in the Fiscal Year 1995 *Annual Financial Report* and Uniform Statewide Accounting System Contain Errors

Amounts reported in the fiscal year 1995 AFR for accounts payable, fund balance, fixed assets, and some revenues and expenditures contained significant errors. Errors were considered significant if they totaled 15 percent or more of the reported amount. The Senate Auditor has already made adjustments in the fiscal year 1996 AFR to correct the effects of the prior year's errors.

Issues and Recommendations

Figure 1 describes the most significant adjustments resulting from the audit. Audit adjustments represent corrections of errors which would have to be made in the 1995 AFR to make the accounts materially accurate. All audit adjustments and their effects on the fiscal year 1995 AFR balances are noted in Appendix 2.

At the end of fiscal year 1995, the Senate Auditor adjusted revenues and expenditures in the USAS to agree with the AFR. As a result, the year-end USAS accounts reflect the same errors as the AFR.

Figure 1

Audit Adjustments Needed to Correct Errors in the Senate's 1995 Annual Financial Report

Account	Amount of Audit Adjustment	Reason for Adjustment
Accounts Payable	\$1,189,489	At year end, appropriations for payroll-related expenditures were no longer available for use, but were still part of the Senate's cash balance. Adjusting entries should have been made to increase Accounts Payable and reduce Fund Balance. Additionally, some prior-year adjusting entries were not reversed, resulting in an understatement of Accounts Payable and an overstatement of Fund Balance.
Fund Balance	(\$1,189,489)	
Investment in General Fixed Assets	(\$554,663)	Furniture and equipment were included in the Fixed Asset balance that Comptroller Reporting Requirements say to exclude. For example, furniture and equipment with individual carrying values of less than \$1,000 and equipment leased under the Master Equipment Lease Purchase Program should be excluded.
Other Revenue	\$229,340	Reimbursements from other agencies for expenditures paid by the Senate were reported as a reduction of expenditures rather than revenue. Additionally, some revenue was not classified into the revenue accounts as prescribed by Comptroller Reporting Requirements.
Travel Expenditures	\$429,118	Legislative per diem payments were reported under Salaries and Wages. These payments are made to Senators for the cost of travel during the legislative session and should be reported as Travel Expenditures according to Comptroller Reporting Requirements.
Repairs and Maintenance Expenditures	\$185,231	Expenditures for repairs and maintenance of equipment and buildings were included in other expenditure categories. These transactions should have been included in Repairs and Maintenance according to Comptroller Reporting Requirements.
Other Operating Expenditures	(\$403,865)	Some items in Other Operating Expenditures should have been reported in more detailed accounts such as Materials and Supplies, Repairs and Maintenance, or Other Revenue as required by Comptroller Reporting Requirements.

Issues and Recommendations

The Senate Auditor is revising the current structure of accounts in the accounting system to agree with Comptroller Reporting Requirements. Once the account structure is revised, reconciliations between USAS and the Senate accounting system can be performed in detail to help ensure timely detection of any errors.

Section 1-B:

Include an Agency Fund in the *Annual Financial Report*

The Secretary of the Senate's office maintains an employee service account that should be reported as an agency fund in the AFR. This account has not previously been reported in the Senate's AFR. Additionally, a description about the use of the account should be included in the notes to the financial statements. An agency fund is an account in which an agency collects and deposits money on behalf of others. During fiscal year 1995, approximately \$67,000 flowed through this bank account. No state funds flow through this account.

The Secretary of the Senate's office set up the account 30 years ago to purchase meals for the Senate Members' lounge. Money is collected from Senators and used to pay for food and beverages for Senators. The account is also used for functions in the Lieutenant Governor's Reception Room. Organizations that want to hold a function at the Capitol pay into this account. The money is used to:

- Purchase supplies and provide staffing for the functions
- Defray the cost of maintaining the room's furniture and equipment
- Purchase items for the room, such as plants, that cannot be appropriately purchased with state funds

- Reimburse the Senate for the use of the room

Recommendations:

We recommend that the Senate Auditor continue efforts to ensure compliance with Comptroller Reporting Requirements and to detect any errors in AFR and USAS balances. We also recommend that the employee service fund maintained by the Secretary of the Senate's office be reported in the fiscal year 1997 AFR as an agency fund with a footnote disclosure describing the nature of the account.

Management's Responses:

Section 1-A - To ensure that financial information is reported accurately the Senate Auditor is working with the Texas Legislative Council to change the current structure of revenue and expenditure accounts in the Senate's accounting system. This will enable the Senate Auditor's office to reconcile financial transactions monthly at the comptroller object level (the lowest level of revenue/expenditure detail). Monthly reconciliations at this level of detail will help detect errors quickly so they can be corrected on a timely basis. The Legislative Council is working to have the accounting system changes finished by January 31, 1997. The Senate Auditor will begin reconciling at the comptroller object level as soon as these changes in the accounting system are completed.

Section 1-B - As of January 1, 1997, the Senate Auditor set up revenue and expenditure accounts in a separate accounting system for the employee service account. The Senate Auditor will also perform monthly reconciliations of this account. This will allow for accurate reporting of this account in

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the Senate's annual financial report. The Senate Auditor will provide the Secretary of the Senate with monthly reconciliations reports from this account.

Section 2:

Continue to Improve Controls Over Tracking Travel Expenditures, Furniture and Equipment Purchases, and Slow-Moving Inventory

During fiscal year 1995, procedures for processing travel vouchers did not ensure identification of expenses that had already been paid. Additionally, the accounting records did not provide detailed travel expenditure and furniture purchase information, nor did they identify slow-moving or obsolete inventory items. The Senate Auditor is developing procedures to address these issues.

Section 2-A:

Develop Procedures to Ensure Identification of Previously Paid Travel Expenses

Based on limited testing, we noted that procedures for processing travel vouchers did not always identify travel expenses that were already paid. Three travel vouchers out of 224 tested included expenses that had already been reimbursed to employees. One employee subsequently refunded the overpayment. The Senate Auditor is researching the others to determine whether they were also refunded. The total amount overpaid on the three vouchers was \$359. Although this is not a large amount, a potential for greater loss exists. The Senate Auditor has already begun developing procedures to detect overpayments.

Section 2-B:

Record Purchase Dates to Identify Slow-Moving or Obsolete Inventory Items

The Senate should track purchase dates to identify and minimize slow-moving inventory items. We noted printing and office supplies purchased prior to fiscal year 1993 totaling \$31,000, or 15 percent of the consumable supply and print shop inventories. The slow-moving items included typewriter ribbons and special purpose paper. During observation of the fiscal year 1996 physical inventory, we noted that the Purchasing Director had already identified some obsolete items and was arranging for them to be returned to the supplier.

Generally accepted accounting principles do not require governmental financial reports to exclude slow-moving or obsolete items from their inventory balances. However, an inventory balance that includes a significant amount of unusable items can be misleading. Monitoring purchase dates can help identify those items that need to be discarded or sold. Additionally, inventory tracking can help determine appropriate purchase quantities. High quantities on hand can drive up the cost to maintain and monitor inventory.

Section 2-C:

Record Travel Expenditures and Furniture and Equipment Purchases in More Detail

Recording travel, furniture, and equipment transactions in more detail would give Senators, committees, and department managers better information about these types of expenditures. More detailed information would aid budgeting and spending decisions.

During fiscal year 1995, travel expenditures of \$450,000 were recorded in two general accounts that do not identify the type of travel used. For example, travel costs could be grouped in categories such as mileage, rental

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car, meals, and lodging. Using more detailed accounts would identify what type of travel is driving the costs and may help identify ways to reduce them.

In the same year, expenditures of more than \$550,000 were combined into "Other Supplies and Materials." This amount included purchases of furnishings and equipment totaling \$437,000. Recording these purchases in more detail is essential for monitoring spending.

Current efforts by the Senate Auditor to revise the Senate accounting structure to agree with Comptroller guidelines will result in more detailed recording of these expenditures.

Recommendations:

We recommend that the Senate continue efforts to strengthen controls over processing travel vouchers, identifying and minimizing slow-moving inventory, and recording expenditure detail.

Management's Responses:

Section 2-A - The Senate's Travel Coordinator has begun recording all submitted travel vouchers in a database. She assigns each travel voucher a unique number and records other information such as the claimants name, travel dates, voucher amount and date of reimbursement. The Senate Auditor will retrieve files from the travel database monthly to analyze and test the file for duplicated payments. Collection of any duplicated payments will be handled jointly between the Travel Coordinator and the Senate Auditor. The Senate Auditor will

prepare a monthly report from his analysis of the database for the Secretary of the Senate's review. This report will include all detail regarding the collection of any duplicate payments.

Of the three travel vouchers that were overpaid, one was refunded to the Senate in the amount of \$149.69. The Secretary of the Senate's office is proceeding with efforts to collect the remaining two travel vouchers totaling \$209.31 that were overpaid.

Section 2-B - The Senate Purchasing Director is currently working to identify slow-moving inventory items. Identification of these items should be completed by the end of January. The Senate Auditor is working with the Purchasing Director to develop procedures for tracking inventory items and determining the criteria to use for when inventory items should be written off. The Senate is converting to a new accounting system that has an inventory module that will allow Senate Purchasing to track inventory on a perpetual basis, establish reorder points and monitor the aging of its inventory. The accounting conversion with the inventory module should be completed by September 1, 1997.

Section 2-C - By restructuring the current expenditure accounts in the Senate's accounting system to the comptroller object level, travel and furniture and equipment purchases will be recorded at the lowest level of expenditure detail. This detail will ensure that expenditures are recorded correctly and will improve the Senate's ability to monitor spending. Restructuring of the expenditure accounts should be completed by January 31, 1997.

Objective, Scope, and Methodology

Objective

Our audit objective was to determine whether financial information was presented in accordance with established criteria and whether the Senate adhered to applicable financial compliance requirements.

Scope

The audit included reviewing and verifying the accuracy of the Senate's cash, consumable inventory, fixed assets, revenues, and expenditures in the Senate *Annual Financial Report* as of August 31, 1995. It also included verifying revenues and expenditures in the Uniform Statewide Accounting System as of August 31, 1995. Although the engagement focused on the accounts mentioned above, the scope of the audit also included a review of other accounts that were impacted by adjustments made to the original accounts reviewed.

The audit included examining, on a test basis, evidence supporting the amounts and disclosures relating to the amounts. The audit also included evaluating compliance with generally accepted accounting principles and *Reporting Requirements for Annual Financial Reports of State Agencies* issued by the Comptroller of Public Accounts.

Methodology

Information collected to accomplish our objectives included the following:

- Documentary evidence such as:
 - Budget and financial reports
 - Senate general ledger
 - Uniform Statewide Accounting System reports
 - Personnel files and reports

- Inventory and fixed asset records
- Travel and purchase vouchers
- Third party invoices
- Contracts for leases and services
- Senate policies and procedures
- Senate resolutions and memos

- Interviews with Senate employees
- Physical observations of inventories

Procedures, tests, and analysis performed included the following:

- Performed tests of details (on a sample basis) on cash, consumable inventories, fixed assets, accounts payable, revenues, and expenditures
- Reviewed working papers and reports supporting the *Annual Financial Report* balances
- Reconciled expenditure and revenue balances in the Senate Accounting System, the Senate *Annual Financial Report* and the Uniform Statewide Accounting System
- Performed analysis to identify duplicate travel payments to the same employee
- Considered the Senate's internal control structure as it relates to the accounts reviewed

Criteria used included the following:

- *Reporting Requirements for Annual Financial Reports* of State Agencies issued by the Comptroller of Public Accounts

Objective, Scope, and Methodology

- Generally accepting accounting principles as promulgated by the Governmental Accounting Standards Board
- State Auditor's *Methodology Manual*

Other Information

Fieldwork was conducted from August 1996 through October 1996. The audit was conducted in accordance with professional standards, including generally accepted government auditing standards and

government auditing standards for financial-related audits.

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

- Kim Novak, CPA (Project Manager)
- Nick Villalpando, CPA
- Tom Wise
- Randy Townsend, CPA (Audit Manager)
- Tom Valentine (Audit Manager)

Audit Adjustments: Senate 1995 Annual Financial Report

Senate 1995 Annual Financial Report			
General Fund - August 31, 1995			
	Unadjusted AFR	Net Adjustment	Adjusted Balance
Assets			
Cash - Legislative Appropriations	\$ 6,263,949		\$ 6,263,949
Accounts Receivable*	1,884		1,884
Consumable Inventories	<u>389,320</u>		<u>389,320</u>
Total Assets	<u>\$ 6,655,153</u>		<u>\$ 6,655,153</u>
Liabilities			
Accounts Payable**	\$ 775,699	\$ 1,189,489	\$ 1,965,188
Fund Balances			
Reserved for Encumbrances*	\$ 22,788		\$ 22,788
Unencumbered Appropriations**			
Future Operations	5,467,346	(1,189,489)	4,277,857
Inventories	<u>389,320</u>		<u>389,320</u>
Total Fund Equity	\$ 5,879,454	\$ (1,189,489)	\$ 4,689,965
Total Liabilities and Fund Equity	<u>\$ 6,655,153</u>		<u>\$ 6,655,153</u>
<p>* These accounts were considered low-risk and were not audited.</p> <p>** We did not specifically audit these accounts. Adjustments result from audit work performed on Fixed Assets, Revenues, and Expenditures.</p>			

Audit Adjustments: Senate 1995 Annual Financial Report, continued

Senate 1995 Annual Financial Report General Fund - August 31, 1995			
	Unadjusted AFR	Net Adjustment	Adjusted Balance
Revenues			
Legislative Appropriations	\$ 22,745,872		\$ 22,745,872
OASI (Social Security taxes)	2,800,000		2,800,000
Employee Benefits	3,492,720		3,492,720
Sale of Goods and Services	80,454	32,186	112,640
Other Revenue	2,502	229,340	231,842
Total Revenues	\$ 29,121,548	\$ 261,526	\$ 29,383,074
Expenditures			
Salaries and Wages	\$ 18,745,555	\$ (337,646)	\$ 18,407,909
Payroll Related Expenses	5,566,088	3,170	5,569,258
Professional Fees and Services	29,654	54,186	83,840
Travel	497,811	429,118	926,929
Materials and Supplies	1,366,166	292,345	1,658,511
Communications and Utilities	646,839	(17,730)	629,109
Repairs and Maintenance	30,481	185,231	215,712
Rentals	1,040,527	107,205	1,147,732
Printing and Reproduction	75,859	65,816	141,675
Other Operating Expenditures	890,929	(403,865)	487,064
Debt Service			
Principal	53,978	(53,978)	0
Interest	5,569	(5,569)	0
Capital Outlay	\$ 324,168	\$ (39,870)	\$ 284,298
Total Expenditures	\$ 29,273,624	\$ 278,413	\$ 29,552,037
Excess of Revenues	\$ (152,076)	\$ (16,887)	\$(168,963)

Audit Adjustments: Senate 1995 Annual Financial Report, continued

Senate 1995 Annual Financial Report General Fund - August 31, 1995			
	<u>Unadjusted AFR</u>	<u>Net Adjustment</u>	<u>Adjusted Balance</u>
Other Financing Sources (Uses)			
Operating Transfers In	\$ 1,600,000		\$ 1,600,000
Operating Transfers Out	(2,598,149)		(2,598,149)
Sale of General Fixed Assets	<u>23,536</u>	(15,343)	<u>8,193</u>
Total	\$ (974,613)	\$ (15,343)	\$ (989,956)
Excess of Expenditures and Other Financing Uses Over Revenues and Other Financing Sources	\$ (1,126,689)	\$ (32,230)	\$ (1,158,919)
Fund Balances - September 1, 1994	6,578,238		6,578,238
Lapsed Appropriations**		(718,227)	(718,227)
Appropriation Reinstated**	426,593	(439,032)	(12,439)
Net Change in Reserve for Inventories*	<u>1,312</u>		<u>1,312</u>
Fund Balance - August 31, 1995	<u>\$ 5,879,454</u>	<u>\$ (1,189,489)</u>	<u>\$ 4,689,965</u>
<p>* These accounts were considered low-risk and were not audited.</p> <p>** We did not specifically audit these accounts. Adjustments result from audit work performed on Fixed Assets, Revenues, and Expenditures.</p>			

Audit Adjustments: Senate 1995 Annual Financial Report, concluded

Senate 1995 Annual Financial Report			
General Fixed Assets Account Group - August 31, 1995			
	Unadjusted AFR	Net Adjustment	Adjusted Balance
Assets			
Furniture and Equipment	\$ 2,605,668	\$ (527,137)	\$ 2,078,531
Vehicles	<u>66,822</u>	(27,526)	<u>39,296</u>
Total Assets	<u>\$ 2,672,490</u>	\$ (554,663)	<u>\$ 2,117,827</u>
Investment in General Fixed Assets	<u>\$ 2,672,490</u>	\$ (554,663)	<u>\$ 2,117,827</u>