

Chief Financial Office Division

Finance and Accounting Reconciliation

Internal Audit Report 11-104

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Texas Department of Information Resources
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Executive Summary

This report discusses the Internal Audit (IA) review details of reconciliation activity in the Chief Financial Office Division (CFOD) of DIR. This audit was included in the FY2011 internal audit plan approved by the DIR board. The purpose of the audit was to determine if the CFOD's, Accounting and Finance sections are reconciling the appropriate accounts necessary to ensure that the DIR financial records are correct.

The scope of the review included examining reconciliation activity and procedures during fiscal year 2011 and the first 8 months of fiscal year 2012. The overall objective of the audit was to determine if CFOD was reconciling accounts to ensure accurate financial reporting. Specific objectives of the review were to determine if written procedures are in place to conduct reconciliations, if appropriate documentation of the reconciliations is maintained, and if there is evidence of oversight review.

IA conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. In our opinion, the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The review revealed that reconciliations are being performed by the CFOD, and there was supporting documentation available to verify reconciliations were reviewed for accuracy by CFOD staff. However, IA found that the CFOD should update its reconciliation procedures to reflect the new CAPPs accounting application, implemented September 1, 2011, and ensure that there are procedures for all reconciliations performed. Additionally, CFOD should finalize processes for reconciliations and research of the:

- Accounts Receivable balances to the Data Center Services (DCS) customer agencies' invoices.
- Centralized Accounting and Payroll/Personnel System (CAPPs) to the Uniform Statewide Accounting System (USAS).
- Exception reporting of the ICT Administrative Fee payments.

Introduction

The audit of the DIR Finance and Accounting Reconciliation process was included in the 2011 Internal Audit Plan approved by the DIR Board of Directors. The CFOD is responsible for all financial and budget matters of DIR. The duties include overseeing and preparing DIR annual operating budget and reviewing expenditures to ensure that budget limits are not exceeded. In addition, the CFOD oversees the detailed reporting of expenditures and encumbrances of the agency. They also handle the general ledger accounting entries and the associated reconciliation of financial transactions.

The reconciliations prepared include the Telecommunication Accounts Payable and Accounts Receivable, Cash, Data Center Services Billing and Cost Recovery, Automated Budget Evaluation System for Texas (ABEST), and Employee Payroll.

Objective, Scope, and Methodology of Work

The objective of the audit was to determine if CFOD is reconciling the appropriate accounts necessary to ensure accurate financial reporting. To achieve this objective, Internal Audit (IA) requested and received a list of the reconciliations currently performed by the DIR Accounting Section (DAS) in the CFOD. In addition, IA obtained and reviewed written documentation detailing the results of the reconciliations. We interviewed managers and their staff to determine their oversight review of reconciliations and if any additional account reconciliations should be performed by the CFOD. IA identified two additional reconciliations that the CFOD is responsible for preparing, which are the ICT administrative fee payments reconciliation and the Data Center accounts receivable balances.

Background

The CFOD has 28 employees, and recently, the CFOD underwent a major re-organization. A new Chief Financial Officer was hired in September 2011, a Director of Accounting was hired in April 2012 and a new Director of Finance was hired in June 2012. These positions will oversee the financial reporting, daily accounting activities, reconciliations, finance, budgeting, and cost recovery (administrative) rate setting areas. In addition, in June 2012, the CFOD hired a Financial Compliance and Improvement Specialist to develop, document, and ensure compliance with policies, procedures, and statutory requirements. All three positions report directly to the Chief Financial Officer. With these changes in management,

the Division is evaluating and assessing their current processes and will implement changes to improve internal controls.

Currently, the Division is divided into two sections, the accounting section and the finance section. Each section conduct reconciliations; however, the majority of reconciliations are performed by the accounting section. IA requested a list of reconciliations that the CFOD performs, and the list identified that the CFOD performs 19 reconciliations. Eleven were specific to the internal accounting function, and eight were specific to the enterprise functions. Of these eight enterprise related reconciliations, six were specific to Telecommunication (Telecom), one for Texas.gov, and one for the Data Center.

There are three systems that the CFOD uses to manage the accounting function. The Centralized Accounting and Payroll/Personnel System (CAPPS) became effective September 1, 2011, the Uniform Statewide Accounting System (USAS), and prior to September 1, 2011, the accounting software application called CDI as DIR's internal accounting system. CDI is commercial off-the-shelf (COTS) software. Effective September 1, 2011, DIR implemented and converted to the CAPPS as its internal accounting system. Due to its age and outdated technology, CDI was replaced by CAPPS, and all CDI data created before September 1, 2011, was archived for historical purposes should DIR require access to the data.

Some of the CAPPS functionality is currently under development by the Comptroller of Public Accounts Office (CPA), and the system is administered by the CPA's office on a daily basis. To assist with the CAPPS implementation, DIR has a Project Manager to oversee and provide guidance to DIR employees. DIR is the first Texas State agency to implement and use the CAPPS.

The USAS is the State's repository of record for financial information. It provides both Generally Accepted Accounting Principles (GAAP) and cash-basis accounting, and satisfies both statewide and agency accounting requirements. USAS captures accounting activities provided by state agencies and institutions of higher education. The financial data in USAS is used by the CPA's office to produce State payments, agency reports, legislative reports, and reports for appropriation management and statewide budgets. USAS also performs specialized functions, such as budgetary and encumbrance accounting, cost allocation, payment processing, and document tracking.

Currently, DIR must reconcile CAPPS to USAS for assurance that the accounting records are correct for reporting financial data. The CPA envisions that the CAPPS will replace the aged USAS as the State's accounting system in the future.

Issues and Recommendations

Issue No. 1: Procedures for Reconciliations

CFOD has procedures for some reconciliation processes, but most do not exist. Currently, CFOD does not have any current reconciliation procedures associated with the new accounting system, CAPPs. However, prior to CAPPs, the DAS had reconciliation procedures related to employee payroll, Automated Budget and Evaluation System for Texas (ABEST) to USAS, and the Cash receipts log. The DAS management confirmed that current procedures were lacking in regards to reconciliations primarily due to the implementation of the CAPPs and the inability of the CAPPs to provide required reports to perform the reconciliations. CFOD is continuing to work with the CPA to implement the needed CAPPs functionality to enable the implementation of applicable reconciliations.

Policies and procedures provide employees with guidance in performing their tasks accurately and consistently, and they ensure that financial data is correct. The lack of detailed and current reconciliation procedures can lead to inaccurate financial processing, and errors might not be detected in a timely manner by employees or management.

Recommendation: The CFOD should update procedures for all accounting and finance reconciliation processes. These procedures should include detailed steps for employees to accomplish their duties including steps on who reviews and approves the reconciliation and the location where the documents are stored.

Management's Response:

The CFOD concurs with the recommendation to update our reconciliation procedures, including those related to the new CAPPs system. As stated by IA, the CFOD has a new leadership team that is taking the necessary actions to improve accounting and finance operations. The CFOD team is continuing to work with CPA staff to identify needed changes within CAPPs. In addition, the CFOD is updating and documenting new reconciliation processes.

Target Completion Date: January 31, 2013.

Responsible Party: Director of Accounting

Issue No. 2: Accounting's Data Center Services Accounts Receivable Balances

The listing of account reconciliations provided by the CFOD did not include the reconciliation of the accounts receivable for the Data Center Services (DCS). This reconciliation was between the aging receivables invoice line item and the open accounts receivable retained by DAS.

IA obtained the DCCS¹ AR Collections Reconciliation report from DAS and compared each agency's accounts receivable balance on this report with the aging receivable balance listed on a copy of the invoice sent to the agencies. IA identified discrepancies comparing the balances between the two documents and these discrepancies had not been researched or reconciled by DAS.

DCS sends invoice information to DAS, DAS then enters that information into the DCCS AR Collections Reconciliation report, which keeps a running balance of the accounts receivables. DAS indicated that they had been reconciling the accounts receivable amounts with the invoice amounts until May 2011. After May 2011, staff resources were devoted to implementing the CAPPs and conversion from CDI². IA requested evidence of the previous reconciliations from DAS; however, they could not produce formal reconciliation documentation but only transactional documentation of outstanding accounts receivable amounts.

Account reconciliations are the basis of an internal control system that alert if there are any inconsistencies that need addressing. Since the reconciliation of the DIR Accounting Section accounts receivable balances and the customer agency invoice aging receivable balances is not performed timely or with proper documentation to identify the outstanding items, there is a risk that the accounts receivable balance is incorrect on the DIR accounting records and financial statements.

Recommendations: In order to ensure that records and statements are correct, IA recommends that DAS conduct a reconciliation of the Data Center accounts receivable activity. This reconciliation should include evidence of the reconciliation performed and supervisory review.

¹ *Data Center Consolidated Service A/R Collections Reconciliation Report (DCCS)*

² *CDI previous accounting software*

Management's Response:

The CFOD concurs with the recommendation to have DAS conduct a reconciliation of the Data Center accounts receivable activity. As part of the transition process to new DCS vendors, all accounts receivable balances are being evaluated and reconciled.

Going forward DAS will perform monthly DCS reconciliations. DAS will ensure that appropriate documentation is maintained to demonstrate evidence of completion and review/approval by management.

Target Completion Date: September 30, 2012

Responsible Party: Director of Accounting

Issue No. 3: Reconciliation between the Centralized Accounting and Payroll/Personnel System and the Uniform Statewide Accounting system

Prior to September 1, 2011, DAS used CDI as its internal accounting system. On September 1, 2011, DIR converted to the CPA "Centralized Accounting and Payroll/Personnel System (CAPPS)." DIR is required to reconcile CAPPS accounting information with the CPA's "Uniform Statewide Accounting System"³ (USAS).

During the CAPPS implementation, DAS was not provided with reports necessary to reconcile CAPPS to USAS. A baseline reconciliation report was provided to DAS for September 2011 by DIR's CAPPS conversion project manager. An exception report created from the baseline reconciliation report was provided to DAS in February 2012, and DAS was asked to validate whether this exception report format met the reconciliation needs for the CAPPS to USAS reconciliation. However, through April 2012, there had been no progress made on the monthly reconciliation. Effective May 2012, the CPA committed 2 employees

³ Section 403.036(C) of Vernon's Texas Codes Annotated Government Code requires state agencies to keep accounts of all applicable appropriations, and to balance these appropriations on a monthly basis with similar accounts kept by the Comptroller's office. This process requires that DIR reconcile CAPPS to USAS.

to provide a reconciliation report using a spreadsheet and DAS began hands on training with the CPA staff to reconcile CAPPs to USAS for closed months, September 2011 through April 2012. The Comptroller's Office continues to have difficulty providing DAS with source documentation to identify the exceptions. Without this reconciliation, there is a risk that DIR accounts could be out-of-balance and any differences in account balances could go undetected.

Recommendations: IA recommends that DAS work closely with the Comptroller's Office to complete the development of standard reports needed to reconcile CAPPs and USAS. Additionally, DAS should develop and train staff to create CAPPs reports using the reporting and analysis SAP Business Objects software available on the CAPPs portal.

Management's Response:

The DAS concurs with the recommendation that DAS work closely with CPA staff to develop standard reports needed to reconcile CAPPs to USAS. During this implementation year DAS has teamed with CPA staff to obtain various files that include transactional data from CAPPs and USAS. DAS will complete fiscal year 2012's reconciliation by October 31, 2012. DAS will also work with CPA staff to develop required reports for reconciling CAPPs to USAS going forward. Additionally, DAS will train staff on and expand its utilization of the SAP Business Objects software to assist with monthly reconciliations.

Target Completion Date: January 31, 2013

Responsible Party: Director of Accounting

Issue No. 4: Exception reporting of ICT Administrative Fee Payments

In 2011, IA released a report on the Information and Communication Technology Cooperative Contracts (ICT) program called Contract Establishment and Monitoring Process. In that report, IA recommended that the ICT program contact vendors monthly if the administrative fee is not timely submitted or paid correctly. The reconciliation between ICT Vendor administrative fees and checks received from vendors is an important internal control for the ICT program to ensure that vendors are reporting administrative fees due DIR along with their monthly sales reports.

Since September 2011, ICT and Accounting have begun to strengthen their process for matching sales reported with administrative fees expected from vendors. The ICT program initiated the establishment of a reconciliation process along with the CFOD to ensure that DIR was collecting all the fees due from vendor sales of products and services using ICT contracts. The ICT division established procedures that manually enter expected vendor administrative fee amounts (billings and revenues) and electronically upload sales report amounts into the contracts module of CAPPs. After these amounts are in CAPPs, ICT verifies that the billing and revenue amounts match those recorded on the CAPPs entry report. The CAPPs entry report contains the administrative fee amount DIR can expect to receive from each vendor.

The CFOD creates accounts receivables in CAPPs using reports from the ICT division. The CFOD runs the “Contracts to Billing” process that generates a billing (accounts receivable debit) amount in CAPPs. This process allows the DIR Accounting section to recognize administrative fee revenue from the ICT vendor sales.

After the payments are automatically matched with the expected administrative fee amount, the CFOD creates an “ICT Admin Fee A/R Open Balances in CAPPs” exception report. This exception report lists contract payment debit and credit amounts that could not be matched with the expected revenue amounts from the ICT division.

The CFOD has not researched the amounts identified on the exception report to determine why there are differences between the expected revenue and the actual revenue received. The CFOD, at times, cannot determine which ICT contract should receive credit for the payment when a vendor has multiple contracts since the vendor does not send a remittance advice to DIR along with their payment.

Without researching the exceptions, DIR would not know if the administrative fee amount received was applied correctly to the corresponding contract or if a vendor paid the correct amount.

Recommendations: The CFOD should allocate staff to complete the research to clear amounts received that do not match the expected amount from vendors. They should also establish procedures notifying the ICT program of any outstanding balances of administrative fees due DIR from ICT vendors.

Management's Response:

The CFOD concurs with the recommendation to research exception amounts. DAS will complete the review of all fiscal year 2012 exceptions by October 31, 2012. DAS will also establish and document procedures for ongoing monthly reconciliations.

DAS will create and document a process that notifies the ICT program of outstanding balances due DIR from ICT vendors.

Target Completion Date: January 31, 2013

Responsible Party: Director of Accounting