



John Keel, CPA
State Auditor

An Audit Report on
**Revenues and Expenditures at
The Texas Ethics Commission**

May 25, 2006

Members of the Legislative Audit Committee:

The Texas Ethics Commission (Commission) has most of the internal controls necessary to provide reasonable assurance that (1) its expenditures are for valid purposes and (2) it maintains accurate and complete accounting and record keeping of revenues and expenditures.

The revenues processed by the Commission that auditors tested were recorded correctly and in a timely manner. Implementing additional controls in its revenue collection process would provide the Commission with greater assurance that all revenues are accounted for. The Commission's reported revenues totaled \$838,200 from September 1, 2004, through November 30, 2005. Other areas for improvement include the maintenance of contract documentation and the assignment of access rights to the Uniform Statewide Accounting System (USAS) and Uniform Statewide Payroll/Personnel System (USPS).

Auditors found no errors when testing Commission expenditures for salaries and wages, rentals and leases, and repairs and maintenance. Those expenditure categories represented 73.4 percent of the Commission's total expenditures during the audit period (see text box). Although the expenditures tested came from selected categories, the internal controls in place are the same for all types of expenditures.

Any system of internal controls has inherent limitations and can provide only reasonable assurance of achieving the control objective, regardless of how well it is designed and operated. Internal controls cannot provide absolute assurance that errors or irregularities would be prevented or detected.

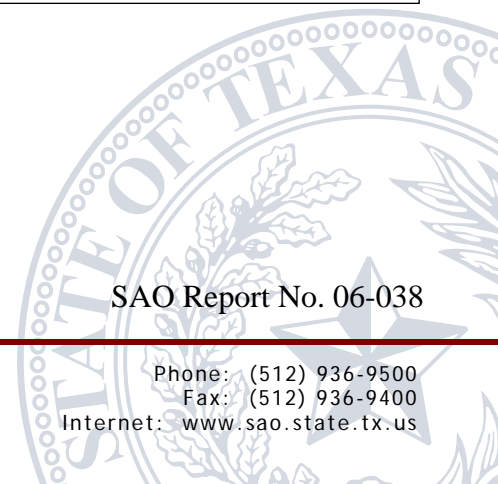
Texas Ethics Commission Expenditures

The table below contains the amounts the Commission expended, by category, for the audit period of fiscal year 2005 and fiscal year 2006 through November 30, 2005.

Texas Ethics Commission's Expenditures September 1, 2004 through November 30, 2005		
Category	Amount Expended	Percentage of Total Expenditures
Salaries and Wages ^a	\$1,833,663	69.5%
Rentals and Leases	34,113	1.3%
Repairs and Maintenance	68,227	2.6%
All Others	700,712	26.6%
Total Expenditures	\$2,636,715	100%

^a The Commission has 33 employees.

Source: Uniform Statewide Accounting System (USAS) and Uniform Statewide Payroll/Personnel System USPS)



SAO Report No. 06-038

Revenues

The Commission is unable to reconcile financial information in two automated systems with each other or with USAS. The Commission also does not have controls over its revenue receipt processes to ensure that all revenues are properly recorded and deposited.

The Commission stores filer information (for public office holders, candidates, political action committees, and lobbyists) in its Agency Management System (AMS). Because AMS lacks dedicated fields for payment amounts, receipt numbers, and dates, the Commission records this data in comments fields in AMS. Financial data in the comments fields in AMS cannot be reconciled with the Commission's Cash Management System (CMS) or USAS. Performing reconciliations is important because it helps to ensure that financial data is accurate. Additionally, the lack of financial information in dedicated fields within AMS hinders the Commission's ability to manage revenues, determine amounts owed to the Commission, and track when those amounts are due.

One Commission employee works without direct oversight at the window in the Commission's public room, where cash, checks, and credit cards are accepted from members of the public for copies of public documents, filing fees, and the payment of late fee penalties. The employee working in the public room does not consistently record all required information on the Commission's Request For Records forms. For example, the number of copies and the amounts paid for copies are not always completed on those forms. Without supervision, there is a risk that some of the funds received may not be recorded in CMS. Additional controls are needed to ensure that all funds collected in the public room are deposited and accurately recorded. The Commission collected \$169,425 in the public room from September 1, 2004, through November 30, 2005.

Recommendations:

The Commission should:

- Develop procedures for performing periodic reconciliations between AMS and CMS for amounts due, amounts paid, and amounts credited.
- Consider enhancements to AMS and CMS to improve controls over data integrity and reliability and to facilitate reconciliations with USAS information.
- Strengthen controls in the public room to ensure that all funds collected there are deposited and accurately recorded.
- Enhance payment documentation for walk-in services by recording amounts paid on all receipt documentation.

Rental and Lease Expenditures

All 35 expenditures for rentals and leases that auditors tested, totaling \$12,514, were appropriate and reasonable. The Commission does not maintain current documentation of contract terms for all of its contracts for rentals and leases. This can lead to overpayment or underpayment because the current terms are not readily available to verify pricing before payment is approved. The Commission did not have current contract terms for 13 (37 percent) of the 35 rental and lease payments tested. These 13 payments were made to 4 different vendors.

Recommendation:

The Commission should develop and implement a process to ensure that all documentation for contracts is kept current to ensure that purchases are made in accordance with current, agreed-upon terms.

USAS and USPS Security

All 97 expenditures auditors tested, totaling \$237,759, were appropriate and reasonable, but auditors identified a lack of segregation of duties in the Commission's expenditures process. Specifically:

- Two Commission employees can both enter and release transactions in USAS. One of these employees entered and released 143 USAS transactions totaling \$59,655 between September 1, 2004, and November 30, 2005.
- One Commission employee can both enter and release transactions USPS. This employee entered and released 2 of the 19 payrolls processed between September 1, 2004, and November 30, 2005.

This lack of segregation of duties presents a risk that inappropriate financial transactions could be entered and released without proper approval. The Commission does not have other controls to mitigate this risk. Basic accounting principles require an organization to plan and provide for appropriate separation of functional responsibilities. The individual responsible for creating a financial accounting transaction for payment should not be the same individual who approves the payment.

Recommendations:

The Commission should:

- Develop and implement policies to define and limit situations in which the same employee is authorized to enter and release USAS and USPS transactions.
- Develop and implement policies and procedures to create compensating controls that will mitigate the risk of misappropriation of funds when the same employee must enter and release USAS and USPS transactions.

Salary, Wage, Repair, and Maintenance Expenditures

All of the salary, wage, repair, and maintenance expenditures auditors tested were appropriate and reasonable. Auditors tested 40 salary and wage expenditures totaling \$157,017 and 22 repair and maintenance expenditures totaling \$68,227. The Commission correctly calculates and pays longevity pay for eligible employees and, therefore, has corrected an issue identified by the Office of the Comptroller of Public Accounts in its fiscal year 2004 post-payment audit.

The Commission agrees with the recommendations in this report, and its responses are included in Part 2 of the attachment to this letter. David Reisman, the Commission's Executive Director, requested this audit on behalf of the Commission (see Part 3 of the attachment to this letter for his request). We appreciate the Commission's cooperation during this audit. If you have any questions, please contact Susan Riley, Assistant State Auditor, or me at (512) 936-9500.

Sincerely,

John Keel, CPA
State Auditor

Attachment

cc: Members of the Texas Ethics Commission
Mr. Cullen R. Looney, Chair
Mr. Raymond "Tripp" R. Davenport, III, Vice Chair
Mr. Ross Fischer
Mr. Tom Harrison
Mr. Francisco Hernandez
Mr. Wales H. Madden, III
Mr. David Montagne
Mr. Nicholas C. Taylor
Mr. David A. Reisman, Executive Director, Texas Ethics Commission



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Attachment

Part 1

Objective, Scope, and Methodology

The audit objective was to determine whether the Texas Ethics Commission (Commission) has effective controls for receiving revenues, ensuring expenditures are for valid purposes, and maintaining accurate and complete accounting and record keeping of revenues and expenditures.

The audit scope included revenues received and expenditures made during fiscal year 2005 and from September 2005 through November 2005.

The audit methodology included interviewing personnel, performing analyses of the accounts, reviewing relevant laws and regulations, and reviewing original documentation. This audit was conducted in accordance with generally accepted government auditing standards.

Audit fieldwork was conducted from February 2006 through April 2006. The following members of the State Auditor's staff performed the audit work.

- Robert G. Kiker, CGAP (Project Manager)
- Margaret Nicklas, GCAP, CIA (Assistant Project Manager)
- Annette Banks, MPA
- Michael Boehme
- Yi Hubert
- Marlen Randy Kraemer, MBA, CISA
- Anthony Patrick, MBA
- Lisa M. Thompson
- Leslie Ashton, CPA (Quality Control Reviewer)
- Susan Riley, CPA (Assistant State Auditor)

Management's Responses

TEXAS ETHICS COMMISSION

P.O. Box 12070, Capitol Station
Austin, Texas 78711-2070

Cullen R. Looney
Chair

Raymond R. "Tripp" Davenport
Vice Chair

David A. Reisman
Executive Director



Commissioners

Ross Fischer
Tom Harrison
Francisco Hernandez
Wales H. Madden, III
David Montagne
Nicholas C. Taylor

May 19, 2006

Mr. John Keel
The State Auditor of Texas
P. O. Box 12067
Austin, Texas 78711-2067

Dear Mr. Keel,

Thank you for the audit work performed by your staff. It is valuable to me as an agency director to have the insight and recommendations of an independent audit report on the commission's operations.

We have reviewed the draft report on revenues and expenditures at the Ethics Commission. Our management responses for each recommendation are as follows:

Revenues

Recommendation

Develop procedures for performing periodic reconciliations between AMS and CMS for amounts due, amounts paid, and amounts credited.

Management's Response

Management concurs with the recommendation. Currently, staff in the Disclosure Filings Section manually tracks all revenue amounts due, paid and credited using spreadsheets. AMS is then updated via these spreadsheets. To allow the AMS database to fully reconcile with CMS, certain additional dedicated fields, in which to place payment amounts, receipt numbers and dates, must be added to AMS. Additionally, new fields will be added to the CMS database to allow linking of the two systems. Once these fields are added and the databases are linked, written policies and procedures will be implemented to run monthly reconciliation reports between the two systems ensuring all payments are properly recorded and applied and that no payments are applied without a record of receipt and deposit.

Sharon Finley, Director of Computer Services Division, is responsible for implementing these changes. The changes are scheduled to be completed by November 1, 2006.

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Mr. John Keel
State Auditor's Office
May 19, 2006
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Recommendation

Consider enhancements to AMS and CMS to improve controls over data integrity and reliability and to facilitate reconciliations with USAS information.

Management's Response

Management concurs with the recommendation. Currently, there are certain dedicated fields in AMS to record amounts paid. Disclosure Filings Section staff manually tracks additional payment information such as amounts owed using spreadsheets. As stated above, the Commission will add additional dedicated fields in both AMS and CMS. This will give staff the ability to run automated reports pertaining to amounts due and paid as well as reconciliation reports between AMS and CMS. To further enhance data integrity and reliability, and to facilitate reconciliations with USAS information, the Commission will change the codes in CMS to allow AMS collections to correspond to CMS. This will allow for amounts shown as collected in CMS to be reconciled with amounts shown as deposited in USAS. Procedures will then be implemented for periodic reconciliation of these reports.

Sharon Finley, Director of Computer Services Division, is responsible for implementing these changes. The changes are scheduled to be completed by November 1, 2006.

Recommendation

Strengthen controls in the public room to ensure that all funds collected there are deposited and accurately recorded.

Management's Response

Management concurs with the recommendation. Currently, staff assigned to work at the public room window are required to enter their unique ID and password anytime they access the cash drawer. This ensures all cash transactions are documented. To further document the details of each transaction and to strengthen the controls over the receipt of revenue, the Commission has implemented additional written policies and procedures to include recording the page count and cost of copy orders on an order form that can then be reconciled with the information entered into CMS. Additionally, a sign has been placed in the public room encouraging each customer to request a payment receipt and to confirm that the receipt is accurate. This will also assist in ensuring that each transaction is correctly entered into CMS. The Commission will also be installing a video surveillance system to monitor this area to ensure proper money handling and to provide additional security for staff.

Becky Levy, Director of Disclosure Filings, is responsible for the implementation of these changes. The written policies and procedures have been strengthened and the sign has been put in place. The video surveillance equipment is planned to be installed by September 1, 2006.

Recommendation

Enhance payment documentation for walk-in services by recording amounts paid on all receipt documentation.

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State Auditor's Office
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Management's Response

Management concurs with the recommendation. Currently, statutes require that a "request for record" form be filled out when Personal Financial Statements are requested to be viewed and/or copied by the public. A separate order form that records copy request information such as page count and amount owed is filled out when copy orders are placed via telephone or e-mail. In order to enhance payment documentation controls for walk-in services, the Commission has initiated procedures whereby each transaction is recorded on an order request form as detailed above. This form will capture the number of copies ordered and paid for as well as the receipt information. This will allow for the reconciliation between what is ordered and what is entered into CMS.

Becky Levy, Director of Disclosure Filings, is responsible for and has implemented this change.

Rentals and Leases

Recommendation

The Commission should develop and implement a process to ensure that all documentation for contracts is kept current to ensure that purchases are made in accordance with current, agreed upon terms.

Management's Response

Management concurs with the recommendation. The Commission has implemented written procedures to ensure that the details for each contract be kept in a separate file and that all contract changes be fully documented for each file with an Action Summary Log maintained on the inside cover for easy reference. Further, each change will be verified against the original term of the contract and approved and signed by all appropriate internal parties, e.g. Executive Director, Director of Administration, Purchasing Officer.

William Calem, Director of Administration, is responsible for and has implemented this change.

USAS and USPS Security

Recommendation

Develop and implement policies to define and limit situations in which the same employee is authorized to enter and release USAS and USPS transactions.

Management's Response

Management concurs with the recommendation. The current staffing structure in the Administration Division provides for an appropriate separation of functional duties. In a small agency, however, it is often challenging to have the staff available to maintain a complete separation of duties at all times. To mitigate the risks in this area we have strengthened our written policies and procedures to specify the exact situations that may require the same employee to enter and release transactions in USAS and USPS, and we are cross-training additional staff on processing USAS and USPS transactions.

William Calem, Director of Administration, is responsible for and has implemented this change.

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Mr. John Keel
State Auditor's Office
May 19, 2006
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Recommendation

Develop and implement policies and procedures to create compensating controls that will mitigate the risk of misappropriation of funds when the same employee must enter and release USAS and USPS transactions.

Management's Response

Management concurs with the recommendation. The Commission has strengthened its policies and procedures to reduce the need for transactions to be entered and released by the same employee by cross-training staff and allowing only those transactions with critical due dates to be entered and released by the same employee if there is no alternative. In those instances when the entry and release of transactions by the same person is unavoidable, the Commission has implemented a secondary review, approval and signature process. This review will provide assurance that these transactions do not result in any misappropriation of funds.

William Calem, Director of Administration, is responsible for and has implemented this change.

Please contact me or my Director of Administration, William Calem, at (512) 463-5800 if you have any questions regarding our responses.

Sincerely,



David A. Reisman
Executive Director

c: Mr. Robert Kiker
Managing Senior Auditor
State Auditor's Office
Robert E. Johnson Building
1501 N. Congress Avenue
P. O. Box 12067
Austin, Texas 78711-2067

DAR:my

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Request for Audit

TEXAS ETHICS COMMISSION

P.O. Box 12070, Capitol Station
Austin, Texas 78711-2070

Cullen R. Looney
Interim Chair; Vice-Chair

David A. Reisman
Executive Director



Commissioners

Raymond R. "Tripp" Davenport, III
Ross Fischer
Tom Harrison
Francisco Hernandez
Wales H. Madden, III
David Montagne
Nicholas C. Taylor

December 1, 2005

Mr. John Keel
State Auditor
State Auditor's Office
1501 N. Congress Avenue, Suite 4.224
Austin, Texas 78701

Dear Mr. Keel,

This letter is to request that the State Auditor's Office (SAO) perform an audit on the financial systems of the Texas Ethics Commission (Commission).

I understand that SAO is currently planning a round of audits, that would focus on agency expenditures for goods and services, on selected small agencies. If possible, I would like to request that the Commission be included in this round of audits. Also, if it is possible, I am requesting that the scope of the audit be broadened to include all aspects of the Commission's financial processes for the last two years or whatever the SAO recommends. I would ultimately like the audit to determine whether the Commission has effective controls for receiving revenue, ensuring expenditures are made for valid purposes, and maintaining accurate and complete accounting and record keeping of revenue and expenditures.

Thank you for your consideration of this request. If you have any questions or require any further information, I can be contacted directly at (512) 463-5795.

Sincerely,

A handwritten signature in black ink, appearing to read "David A. Reisman".

David A. Reisman
Executive Director

c: Cullen R. Looney, Interim Chair; Vice Chair, Texas Ethics Commission

DAR:my

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