

Key Points Of Report

An Audit Report on The Uniform Statewide Accounting System (USAS)

January 1996

Overall Conclusion

The Uniform Statewide Accounting System (USAS) began operation on September 1, 1993, and is fulfilling many of its original requirements for a statewide accounting system. However, recommended improvements will help USAS provide more reliable, cost-effective information for statewide and agency-level financial decision-making.

Key Facts And Findings

- Improved planning and monitoring of progress for USAS are needed. The Comptroller's Office and user agencies should improve strategic planning. A group with representation similar to the inactive USAS Project Advisory Committee would be appropriate for this planning effort. Also, the Comptroller's Office should perform cost/benefit analyses and monitor ongoing results of USAS enhancements to ensure cost-effective development of the remaining system features.
- Improved controls are needed to ensure reliable statewide accounting information and to protect the State's assets. The Comptroller should further adapt accounting controls to the USAS environment and provide more timely, clear, and consistent guidance to agencies.

Some data contained in USAS, the accounting system of record for Texas, does not match the published financial reports for the State such as the annual financial reports. To reduce data errors, the Comptroller's Office and user agencies should improve timeliness of reconciliations, controls over data entry, and monitoring and analysis of USAS data to detect and correct errors as soon as possible.

Stricter statewide security controls over USAS and the Texas Payee Information System (TPIS), as well as improved separation of duties at agencies, are needed to help prevent fraud and to identify and reduce the risk of exposure to other errors and irregularities.

- Improved USAS systems development processes would reduce the risk of system problems and increase efficiency. The Comptroller should improve and enforce processes for systems analysis, user involvement, and project management.

Contact

Charlie Hrcir, CPA, Audit Manager (512) 479-4700



Office of the State Auditor

Lawrence F. Alwin, CPA

This audit was conducted in accordance with Government Code, § 2101.038 and § 321.0131.

Executive Summary

The Uniform Statewide Accounting System (USAS) began operation on September 1, 1993. It is fulfilling many of its original requirements for a statewide accounting system. However, there are opportunities for improvement in the areas of planning, support, controls, and development. These improvements will help the Comptroller's Office and user agencies provide more reliable, cost-effective, statewide and agency-level financial information.

Better Monitoring of Progress and Resources Along with a Well-Defined Strategy for the Future of USAS Are Needed

The Comptroller's Office and user agencies need to improve planning and monitoring of USAS efforts to make the best use of state funds. Areas for improvement include monitoring the progress of USAS, determining the cost/benefit of enhancements, assessing personnel resources, and strategic planning.

First, the Comptroller's Office and user agencies should reassess the need for the undeveloped USAS features. Then, they should schedule development of the cost-justified features based on available resources. Agencies need to know which and when remaining features will be implemented.

Secondly, the Comptroller's Office needs to periodically monitor achievement of USAS objectives and the cost effectiveness of the system. This would help determine if USAS is "on track" or if changes in objectives or priorities are needed.

The Comptroller's Office has not compared actual cost avoidance and cost savings with USAS costs. Between fiscal years 1988 and 1997, the Statewide Systems Development

Division will have spent \$40 million to develop, maintain, and support USAS. While this comparison may no longer be a productive exercise, the Comptroller should estimate and monitor the cost/benefit of future USAS enhancements.

The Comptroller's Office should improve the allocation and monitoring of USAS personnel resources. By not assessing personnel resource requirements for USAS initiatives and ongoing services, the Comptroller's Office increases the risk that its deadlines and performance targets will not be met.

The Comptroller's Office and user agencies should create and maintain a strategic plan for USAS. A group with representation similar to the inactive USAS Project Advisory Committee would be appropriate for this effort. Balancing the differing needs of oversight agencies, internal users, and reporting users will be a challenge in creating the vision for such a plan. Active participation by all groups is critical to the plan's success. The Comptroller's customer service initiatives are a positive step toward obtaining statewide input to begin strategic planning.

Improved Controls Are Needed to Ensure Reliable Statewide Accounting Information and to Protect the State's Assets

Statewide and agency-level accounting controls and practices have not been sufficiently adapted from the Financial Accounting and Control for Texas System (FACTS) to USAS. This increases the risk that statewide accounting information may be

Executive Summary

unreliable. Likewise, this leaves statewide accounting operations more vulnerable to errors, irregularities, or fraud.

The Comptroller should emphasize identifying and improving those areas of statewide accounting operations that are particularly vulnerable. As the accounting officer for the State, the Comptroller should work with agencies to ensure consistent implementation of statewide accounting policies.

One specific area for improvement is in the processes for communicating statewide accounting policies and procedures. The Comptroller's Office should establish and enforce procedures to guide their staff in disseminating information to state agencies in a more timely and understandable manner. This would help ensure that agencies implement statewide requirements more consistently.

Much of the USAS data is accurate and timely. However, some data in USAS, the accounting system of record for the State, does not match published financial reports such as the annual financial reports. The impact of such errors will increase as state leaders begin using USAS more frequently to monitor financial progress throughout the year.

To reduce data errors, the Comptroller's Office and user agencies should improve reconciliations, adjusting entries, and controls over data entry. They should also periodically monitor and analyze USAS data to detect and correct errors as soon as possible.

The Comptroller's Office and user agencies should take additional measures to tighten security controls to prevent fraud and to identify and reduce the risk of exposure to other errors and irregularities. A Comptroller's Claims Division post-audit identified an instance of fraud caused by

inadequate separation of duties at an agency. New USAS capabilities will now enable the Comptroller's Office to implement a preventive control to help detect such risk. The Comptroller could periodically identify these risks and notify the involved agencies.

To further enhance security controls, the Comptroller should update and enhance guidance and requirements for agency security coordinators. Agencies should be required to periodically review user access for all agency personnel to ensure that all users are still employed with the agency and that their level of access is necessary for their job duties.

Improved USAS Systems Development Processes Would Reduce the Risk of System Problems and Increase Efficiency

Key elements of a systems development methodology for USAS are omitted or not fully implemented. This increases the risk of system problems and decreases efficiency of the enhancement and maintenance work.

The Comptroller should clearly define all key processes for maintenance and enhancement of USAS. Likewise, it should establish an ongoing quality assurance function to monitor and assess the adequacy of these key processes. In addition, the Comptroller's Office should continue striving to obtain user participation at critical points of the development process. Finally, the Comptroller should more consistently estimate and monitor USAS development manpower requirements and improve status reporting.

Executive Summary

Management's Response

We are pleased that the overall results of this audit show USAS to be meeting many of the original and needed requirements for a comprehensive statewide accounting system. This project has been a major undertaking for our office that required the cooperation and participation of 254 user agencies and universities. The magnitude of the project has been such that we recognize that we still have work to do to achieve the results we desire for the statewide system. Therefore, the audit will be a major help to us in lining out priorities.

The auditors have provided us with a number of suggestions that will improve the efficiency and effectiveness in our continued enhancements of USAS. The acceptance of their recommendations can be noted in the actions we have already taken to implement their suggestions (which are provided in more detail in the body of this report).

It has been our strategy to involve the users of USAS in its development to the greatest extent possible. Over the years we have experimented with a various number and types of forums that we felt were most conducive to user involvement. However, we now recognize the need to better formalize this involvement through such processes as strategic planning, updating of the Statement of Condition, and more improved cost benefit analysis, as recommended by the auditors.

The replacement of the Financial Accounting and Control for Texas System (FACTS) by USAS required a shift in the paradigm for processing financial information for the State. This has resulted in changing the types of accounting controls that have been used in the past, along with our methods of communicating those changes. The auditors have again provided us with constructive

suggestions that will improve on necessary controls.

The future enhancements to USAS are important to fulfilling the vision that has guided us in the development of USAS. Like all successful designers of software applications, we recognize that user demands increase with each success that is brought to the market. Our ability to meet those demands will hinge greatly on our ability to make modifications in a timely manner with user involvement. The auditors have provided us with valuable suggestions on how we can improve the change process.

Our vision for USAS has been to create a financial information system that is being used by agencies and universities because of their desire and not because of an official mandate. The recommendations that have been provided by the auditors will help us in creating a more user friendly product that is meeting the demands of our users. Lastly, we would like to thank the State Auditors for their patience and thoroughness in obtaining their understanding of USAS.

Summary of Objective and Scope

The audit objective was to assess the adequacy and accuracy of USAS as a comprehensive statewide accounting system.

The scope included review of controls over USAS and statewide accounting at the Comptroller's Office and at 11 state agencies and universities. Also included were interviews and limited data collection at additional agencies and universities, review of the USAS system development processes, and automated analysis of the USAS data.

This page intentionally left blank.

The Uniform Statewide Accounting System (USAS) is fulfilling many, though not all, of its original requirements for a statewide accounting system. However, there are areas for improvement in the adequacy and accuracy of USAS and in efforts to support the system.

The basic components of USAS have been operational since September 1, 1993, providing the State with both cash basis and accrual basis statewide accounting data. USAS is a general ledger accounting system that tracks both revenues and expenditures and compares them with agency and university appropriations.

While USAS provides functionality not available with the previous Financial Accounting and Control for Texas System (FACTS), it is unknown if the benefits provided by USAS equal or exceed the cost to develop and implement the system. Some secondary components of USAS are not yet developed and may no longer be needed or cost beneficial. The ultimate tests for USAS are whether it is adequate and accurate and whether it can deliver cost-effective benefits for the State with the funds used to create and maintain it.

As the accounting system of record for Texas, USAS must contain accurate, integrated, comprehensive, consistent, and timely accounting information. All state entities, including the Comptroller's Office, have a role in ensuring that USAS is adequate for statewide decision-making. All have a responsibility to ensure that the data entered and maintained in the system is accurate. The Comptroller's Office provides the main infrastructure for USAS, and all state agencies and universities provide data to the system.

Section 1:

Better Monitoring of Progress and Resources Along with a Well-Defined Strategy for the Future of USAS Are Needed

Section 1-A:

Core Functions of USAS Began Operation in Fiscal Year 1994; Some Secondary Specifications Remain Unscheduled for Implementation

USAS began operation on September 1, 1993, with the implementation of the basic functions necessary for it to be the accounting system of record for the State. Development of year-end processing and secondary specifications is ongoing. Until the outstanding specifications are re-evaluated and prioritized by the users, individual agencies will not know with any certainty what additional functionality will be provided by USAS in the next few years.

USAS provides the State with capabilities not available from the prior Financial Accounting and Control for Texas System (FACTS). Currently, USAS contains both cash basis and accrual basis statewide general ledger accounting data for all state agencies and universities. In addition, it is used as the internal accounting system by 105 agencies. USAS tracks revenue and expenditure data that can be compared to agency appropriations. Indirect administrative costs can be allocated to appropriation strategies for this purpose. More efficient payment processing includes combining multiple payments for a vendor and reducing paperwork and time needed for payments

to be processed. In addition, agencies and universities can transmit and access data on-line, saving overall processing time.

As of June 1995, the features listed below have not been implemented:

fixed assets	bond subsystem
cash receipts	budget preparation
annual financial reports	recurring transactions
labor distribution	grant billing
accounts receivable	project billing

Not all of these features have a formal priority or target date for implementation. Some of these features may no longer be cost beneficial or needed. For remaining specifications not eventually implemented, internal users will continue to use their current manual and automated methods of performing these functions.

In 1992, recognizing they had insufficient resources to implement all USAS specifications by the target date of September 1, 1993, the USAS project team recommended prioritization of the remaining USAS requirements. The team published a *Statement of Condition*, which provided this prioritization and addressed the level of effort remaining to implement a basic system (Phase I) by September 1, 1993. Phase II (year-end processing) and Phase III (secondary specifications) USAS functions, including many of the currently unimplemented features, were to be incorporated over time. Since the publication of the *Statement of Condition* users have requested additional changes and given some of these newer changes higher priority than the Phase III features.

Normally, specifications for automated systems are “frozen” prior to programming, and only required changes to specifications are made from that time until implementation. This is necessary for efficient systems development; constantly changing requirements during programming and testing greatly increase the risk of system bugs and overruns on project schedules and budgets. Once a system is implemented, enhancements and new user needs can be addressed in a systematic manner.

According to Comptroller personnel, the unaddressed features no longer have as strong an impact on agency decisions to become reporting versus internal users. Currently, the desire of some agencies for fully integrated financial information systems (with even broader functionality than was planned for USAS) causes them to remain reporting agencies. For example, many agencies are now considering remaining reporting agencies because they want purchasing (not planned for USAS) integrated with their accounting system. The desire for client server technology¹ is another reason some agencies are investigating remaining reporting users when replacing or updating their accounting systems.

¹Client server technology offers the potential benefits of better response time, an accounting system customized for the particular agency needs, and more fully integrated agency-wide financial information systems.

During the audit, we documented the status of the USAS specifications based on information obtained from various sources. Results are presented in Appendix 2.2, an assessment of current USAS functionality.

Recommendation:

The Comptroller's Office and user agencies should reassess the need for the outstanding features and schedule the development of the cost-justified features based on available resources. Updating the *Statement of Condition* is the first step in tracking implementation status of specifications. The updated documentation should include new functionality not identified in the 1992 *Statement of Condition*, as well as previously defined enhancements no longer planned for implementation.

The Comptroller should distribute the updated *Statement of Condition* to all users. Knowing when or if certain features will be addressed in USAS will enable agencies to consider USAS as an option for related financial processing and information needs. This information will also help users plan coordination with statewide accounting.

Management's Response:

We agree. The Comptroller's Office is developing a plan to update the Statement of Condition. This plan will be completed by January 31, 1996. The plan will also be updated on a periodic basis.

Section 1-B:

Evaluate Achievement of USAS Objectives

The Comptroller's Office has not evaluated the achievement of the primary objectives of USAS, which are listed below:

- *meet State and GAAP financial reporting requirements;*
- *meet agencies' general accounting requirements and, thereby, reduce the number of separate accounting systems in the state;*
- *provide accurate and consistent information on a timely basis;*
- *reduce the cost of the State's accounting and budgetary processes; and*
- *provide better accountability by implementing a cost accounting system.²*

Our audit work noted evidence of progress on or achievement of the objectives in all cases except one. We could not determine whether the cost of the State's accounting and budgetary processes have actually been reduced. No measurement system exists for collecting or monitoring these costs.

²Comptroller of Public Accounts, State Government Accounting Division, *Uniform Statewide Accounting System Revised Functional Specifications*, July 1990, page I-7.

A brief status of the original objectives based on information collected during this audit is shown in Figure 1. (For more detailed information on the status of these original objectives, see Appendix 2.3.)

Figure 1:
Status of Original USAS Objectives

ORIGINAL OBJECTIVE	CURRENT STATUS
Meet State and GAAP Financial Reporting Requirements	Overall, USAS is designed to maintain accounting data consistent with GAAP and National Association of College and University Business Officers (NACUBO) standards. The Comptroller plans to produce some parts of the AFRs directly from USAS at the end of fiscal year 1996.
Meet Agencies' General Accounting Requirements and, Thus, Reduce the Number of Separate Accounting Systems in the State	Based on the original cost/benefit study, the Comptroller has been successful in achieving the objective of having at least 30 agencies as internal users by the end of the second year of system operation (August 1995). As of September 1995, 105 "internal" agencies used USAS as their internal accounting system. The other 137 "reporting" agencies and the 63 universities continue to maintain their own internal accounting systems and, in addition, report information to the central USAS data base.
Provide Accurate and Consistent Information on a Timely Basis	USAS capabilities, as well as changes in statewide accounting legislation, policies, and procedures, have resulted in more timely processing of payments and recording the expenditures of state funds. While much of the information on USAS is accurate, consistent, and timely, improvements can be made, as discussed in Section 2 of this report. USAS is at risk of having incomplete and inaccurate data, due to the fact that there is no strong incentive or enforcement power to ensure that agencies report complete and accurate data.
Reduce the Cost of the State's Accounting and Budgetary Processes	Not all of the planned budgetary functions have been implemented. It is unclear at this point whether USAS will actually lower the cost of the State's accounting and budgetary processes. No measurement system exists to collect or monitor such cost data.
Provide Better Accountability by Means of a Cost Accounting System	USAS provides cost accounting capability to the object code level, which was the original intent of the system design. The USAS core cost accounting capability was not intended to support activity-based cost accounting ³ or detailed grant and project billing.

³The Federal Accounting Standards Advisory Board recommends requiring activity-based cost accounting for entities receiving federal aid, effective September 30, 1996. This may entail more detail than provided by the current object codes.

High-level objectives help define the direction and priorities for the development of a system like USAS. Periodic monitoring and evaluation of the objectives helps determine if the system is "on track" and if adjustments in objectives or priorities are needed. Objectives can be tied to intangible and/or quantifiable benefits. (Section 1-C of this report addresses quantifiable benefits of USAS.)

Recommendation:

The Comptroller and user agencies should periodically re-evaluate objectives of USAS as part of an ongoing planning and monitoring process. As appropriate, objectives should be added or objectives not yet fully achieved should either be amended or addressed in a plan for future action.

Management's Response:

We agree. This will be included in the Statement of Condition that will be updated on a periodic basis.

Section 1-C:

Evaluate the Cost Effectiveness of Remaining USAS Features

To date, the actual cost/benefit for USAS is unknown. The Comptroller's Office has not compared actual cost avoidance and cost saving figures with the development cost for USAS. Periodic evaluation of the costs and benefits of USAS would have helped determine if the system was "on track" and if adjustments in planned activities or priorities were needed.

By the end of fiscal year 1997, the Comptroller's Office will have expended approximately the full \$39.8 million originally estimated as the development and initial maintenance and support cost for USAS. The status of the quantifiable benefits of USAS, originally estimated at \$61.5 million⁴ for the same period, is unknown. This does not necessarily mean that USAS is not cost beneficial. While some benefits may no longer be achievable, new benefits have likely been derived from features added to the original design.

Updating the cost/benefit figures would determine the actual net cost/benefit. However, two main factors lessen the value of such an exercise. These factors are the lack of supporting documentation for the initial cost/benefit estimates and the lack of collecting and monitoring benefit data as development proceeded.

As of the end of June 1995, the Comptroller's Office Statewide Systems Development Division had expended an estimated \$33.7 million to develop, maintain, and support USAS. This figure does not include administrative costs, telecommunications costs, master lease expenditures, Budget Execution and Monitoring System (BEAMS) project expenditures, or ongoing Data Services and Fiscal Management operations for the implemented system. In addition, agencies and universities have contributed significant resources to help develop, test, and convert to the new system.

⁴The cost/benefit did not reflect the total value added for more comprehensive, consistent statewide accounting information, one of the primary objectives for USAS.

The fiscal year 1996-1997 General Appropriations Act contains \$31.4 million for all Uniform Statewide Accounting Project (USAP) components (USAS, Uniform Statewide Payroll System, Human Resources Information System, and the State Property Accounting System), of which \$6.8 million is planned for USAS, Texas Payee Identification System (TPIS), and related subsystems. Specific deliverables for USAS through fiscal year 1997 include the 90-day agency and university annual financial reports, various Phase III features, correction of various system errors, and other miscellaneous enhancements. In addition, other funds are allocated separately from USAS to assist agencies in procuring and implementing USAS-compatible accounting systems using client/server technology. Cost/benefit estimation and monitoring could help ensure the cost effectiveness of these planned enhancements.

Recommendation:

The Comptroller should perform a cost/benefit analysis for the remaining USAS features. The objective of the analysis should be to determine whether planned USAS features would be cost effective in meeting system objectives. Monitoring the status of costs and benefits would identify areas for improvement or emphasis and may even indicate the need to cancel development of features determined not cost effective.

Management's Response:

We agree that a cost benefit analysis should be performed for all of the remaining USAS features. The cost benefit analysis will be updated on a periodic basis.

Section 1-D:

Improve Assessment and Monitoring of Personnel Resources Required for USAS Initiatives and Ongoing Support

The current hiring freeze at the Comptroller's Office, plus the lack of requested fiscal years 1996-1997 funding for contracted programming support, leaves fewer available personnel to complete initiatives and provide ongoing support functions such as appropriations control, pre-audits, post-audits, user training, and data entry. By not assessing and monitoring resource requirements for USAS initiatives and ongoing services, the Comptroller's Office increases the risk that deadlines and performance targets will not be met. Knowing not only the total available personnel resources but also resources needed for each initiative or ongoing service is critical in prioritizing and identifying what can reasonably be accomplished at an acceptable quality level. Manpower estimates are particularly important in an environment like the Comptroller's where personnel are often assigned concurrent responsibility for projects and ongoing support activities.

The lack of personnel resource assessment and monitoring appeared to be one factor in postponement of CAFR/USAS work group deadlines and the low percentage of planned post-audits completed for fiscal year 1995.

Personnel resource allocation problems can ultimately impact customer satisfaction and productivity. For example, the lack of personnel resource assessment may have contributed to delays in the planned implementation of the statewide Accounting Policy Statement Number 4 (APS4).⁵ The delay caused agencies to have to retroactively adjust their accounting records for several months of fiscal year 1995. Likewise, during the past year, users indicated that response time to agency assistance questions was slow. The Comptroller's Office is addressing this situation, but better assessment and monitoring of personnel resources for this function may have detected the problem earlier and prevented some user dissatisfaction and unproductive time.

Among the initiatives and ongoing functions that would benefit from improved resource allocation and monitoring are the following:

- appropriation control processes
- claims post-audit process
- USAS enhancements via the ACR process
- customized agency training
- Phase III initiatives
- client server technology
- agency assistance

Recommendation:

The Comptroller's Office should assess and monitor personnel resource requirements and consider resource constraints when setting and monitoring USAS goals, priorities, performance targets, and deadlines to ensure that they adequately avert the potential risks.

The Comptroller's Office should set minimum performance levels for ongoing USAS and statewide accounting activities and determine the personnel resources required to achieve those performance levels. In addition, management should estimate personnel resources needed to complete projects. If resources are inadequate to reasonably meet performance targets and deadlines, management should consider other alternatives.

Management's Response:

We are not completely convinced that setting minimum resource levels for all activities is either feasible or productive. A significant portion of our resources are spent on demands made by entities outside of our control. Setting resource levels would not, in our opinion, be a productive exercise. We know that the continued enhancements for USAS will be calling on resources that are beyond the hours that are available to us. In many instances we will not have the luxury of eliminating projects based on a

⁵APS4 addresses the implementation of Governmental Accounting Standards Board (GASB) Statement No. 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance."

prioritization of available resources. However, we will take into consideration this recommendation for assessing personnel resources for “controllable” activities.

Section 1-E:

Define Statewide Strategies to Address Future of USAS

There is no strategic plan guiding the various USAS development and improvement initiatives underway. Decisions to pursue specific initiatives are not based on a common statewide vision for the present and future of USAS. Strategic planning would provide better information to set priorities, guide research, and reduce the risks involved in implementing new technology for statewide accounting.

The current client server initiative illustrates the risk of implementing new technology without a clear strategic direction. The Comptroller is a key player in this initiative and is considering investment in a statewide license for client server based accounting and financial information software for use by reporting agencies. While at least five agencies have expressed interest, the overall statewide level of user need and interest is unknown. Some of the functions planned for the client server systems are also planned for the central version of USAS, yet central implementation of these functions has been delayed. The delay is reportedly due to lack of user priority and lack of development resources. While the client server initiative could further reduce the number of separate accounting systems in the State, it is unknown if this is the best use of statewide resources given the lack of clearly defined strategies for USAS.

USAS’ dual objectives of providing both statewide accounting and individual agency accounting capabilities does not lend itself easily to statewide consensus and thus common vision for a strategic plan. The user population, primarily consisting of the three groups below, has differing needs from USAS:

- *oversight bodies* that want the best statewide accounting information possible
- *internal agencies* that want the best internal accounting capabilities to support their needs
- *reporting agencies and universities* that have little incentive to support either objective since they receive few benefits from the system

In lieu of a strategic plan, the Comptroller’s focus on improved customer service is a positive step towards obtaining statewide input to begin strategic planning. Initiatives to support the customer service strategy include the following:

- monthly “user advisory” meetings with the Deputy Comptroller
- twice monthly meetings with elected user representatives to prioritize ACRs
- a CAFR/USAS work group
- increasing the size of the agency assistance staff
- expanding electronic communications with users
- creation of a calendar of significant statewide accounting dates

- organizing a meeting with attendees representing the various organizations affected by USAS

These initiatives have increased user involvement, a key ingredient for the successful preparation and execution of a statewide strategic plan for USAS.

Normally, a steering committee representative of all affected parties follows a process to gain a consensus of needs and priorities. The committee provides ongoing strategic direction for a system at the development stage of USAS. Such committees actively plan strategies for addressing changing technology, regulations, environments, and needs. It prioritizes goals and objectives in light of total available resources, formulates a vision, and formalizes that vision into a strategic plan that provides all affected organizations with a base on which to plan their inter-related individual futures. The original USAS Advisory Committee is inactive and was not charged with these specific responsibilities and authority.

Recommendation:

The Comptroller's Office and user agencies should improve strategic planning to maximize the cost-effective life of USAS as a tool for statewide accounting. A group with representation similar to the inactive USAS Project Advisory Committee would be appropriate for this planning effort. The Comptroller and user agencies need to work together to define potential hurdles to the ongoing success of USAS and formulate strategies to address them. Active user participation is critical to the success of the strategic planning effort. All users, including internal and reporting state agencies and universities, legislative leadership, and oversight agencies, should provide input on their current and future needs as well as resources available for statewide accounting efforts.

The plan could identify statewide strategies for USAS that address concerns of users or the Comptroller's Office. Some such issues mentioned in the course of the audit were user and Comptroller accounting and USAS expertise, data accuracy, system availability and performance issues, and agency and Comptroller resources for USAS development and processing. For original objectives and benefits not fully achievable via USAS, the strategic plan should identify and prioritize alternatives to meet the individual agency and statewide financial management needs.

The Comptroller's Office, as the administrator and manager of USAS, should initiate the statewide USAS strategic planning process and provide the following input:

- up-to-date documentation of current USAS functionality, changes pending, and functions/capabilities not planned for implementation
- up-to-date evaluation of objectives and benefits of USAS
- a reasonable estimate of what the Comptroller can achieve with its available resources

Management's Response:

We agree. The Comptroller's Office and users could improve strategic planning for USAS. It is our plan to incorporate a section on strategic planning in the updated Statement of Condition. This planning will be done with the involvement by the users.

Section 2:

Improved Controls Are Needed to Ensure Reliable Statewide Accounting Information and to Protect the State's Assets

Statewide and agency level accounting controls, policies, and procedures have not been sufficiently adapted to USAS. This increases the risk that statewide accounting information may be unreliable. This also increases the risk that statewide accounting operations may be vulnerable to errors, irregularities, or fraud.

As the sole accounting officer for the State, the Comptroller has the responsibility to supervise the State's fiscal concerns and to provide accounting policies and procedures that serve as accounting controls for the agencies and universities. The Comptroller should ensure that statewide accounting policies and procedures are clearly communicated to state agencies and universities to guide them in providing consistent and accurate USAS accounting data. In addition, the Comptroller should monitor compliance with the policies and procedures. The agencies and universities should adapt the statewide policies and procedures to their particular environment and should adhere to these procedures to ensure the reliability of the data reported to USAS and the safeguarding of state assets.

Section 2-A:

Continue to Improve Processes for Implementing and Monitoring Statewide Accounting Controls in the USAS Environment

Prior to the implementation of USAS, the Comptroller's Office did not reassess key accounting controls, policies, and procedures needed to ensure USAS reliability and adequate protection of state assets. This poses a significant risk to the State because USAS presents many exposures not applicable in the previous FACTS environment. Current Comptroller initiatives, such as improvements in the annual financial report (AFR) guidelines, indicate that management is aware of the need for improvement and is beginning to re-assess accounting controls. Some new policies and procedures have been developed but have not been written and/or adopted by management.

Evaluating and adjusting existing work processes and controls is a critical part of the system development process. It provides management and users with an opportunity to familiarize themselves with the new automated system and how it will impact their workplace and the current control environment. It also helps ensure that manual and automated processing is coordinated and controlled in a way that maximizes the

efficiency and effectiveness of work operations. Without this evaluation and modification of overall processes (including policies, procedures, and controls), the State runs the risk that the new system may not produce data that is complete, valid, and reliable. Additionally, the system may not be used to its full potential to reduce manual workloads.

Recommendation:

The Comptroller should continue identifying areas of its statewide accounting operations that are particularly vulnerable to errors, irregularities, misuse of assets, or circumstances that may adversely affect the reliability of the statewide financial information or protection of state assets. In updating its work processes, the Comptroller should consider how the unique capabilities of USAS could be used to increase its work efficiency. The Comptroller should assess risk for each area or process identified, and modify existing accounting controls, policies, and procedures to address these risks.

Areas and processes likely to need attention include the following:

- security and controls to prevent fraud
- processes used to detect system or data accuracy errors at both the agency and statewide level
- processes for testing accounting standards, policies, and procedures developed for use by state agencies
- processes used to monitor agency compliance with statewide accounting policies and procedures
- appropriation control functions used to monitor agency compliance with budgets and spending authorization
- Claims Division post-audit function
- profile and transaction code maintenance which ensures that transaction processing occurs according to GAAP

Management's Response:

We will continue in our efforts for identifying areas that are vulnerable to errors, irregularities, or circumstances that may adversely affect the reliability of our statewide financial information. During the course of this audit we have already initiated or instituted the following improvements:

- *Accounting standards, policies, and procedures are being reviewed and tested more rigorously with the assistance of the user community.*
- *A project group will be recommending formal policies regarding Comptroller responsibilities in the area of data monitoring and validation.*
- *We have reorganized our appropriation control section to provide more in-depth expertise and knowledge for agencies with like functions. We have also provided our appropriation control officers with more training and responsibilities for monitoring of compliance with budgets and spending authorization.*
- *The post audit function is being performed more in accordance with the Government Auditing Standards as established by the United States General Accounting Office. We believe that following these standards will produce a post audit that is more conducive to discovering errors or irregularities.*
- *We have instituted new procedures that require the Financial Reporting Section to review and approve all profile and transaction code changes. This process should ensure that transaction processing occurs according to generally accepted accounting principles. Within the next six months we will also review all of the profiles. These profiles were initially established with the assistance of the State Auditor's Office.*
- *We have developed a new report transmission process for ad hoc reports to provide agencies data in a much faster and more efficient manner. These processes will facilitate agencies abilities to reconcile to USAS, SPA, and other systems.*

While we agree that our office has a responsibility of establishing and monitoring statewide accounting controls, we believe that other controls should also be emphasized for their importance. The first line of responsibility for ensuring that accounting policies and procedures are followed are the individual agencies and universities. The internal audit functions at those institutions also have a responsibility for ensuring compliance with the standards that we are establishing. Lastly, the role that the State Auditor's Office plays in monitoring compliance is extremely important. Again we are in no way downplaying our role in maintaining the integrity of USAS data; however, these other lines of defense are also important.

Section 2-B:

Provide More Timely and Clear Communication, Guidance, and Support to User Agencies

The processes used by the Comptroller to communicate accounting policies and reporting requirements do not ensure that agencies and universities receive the information in a timely manner. In addition, the information provided is not always clear or sufficient to ensure that all agencies can implement the policy or requirement consistently.

Some areas that need improvement include the following:

- **Methods and Mechanisms Used to Communicate Information** - While the Comptroller's Office is taking steps to improve communications with agencies, we noted additional areas for improvement in this area. Currently, the Comptroller does not have a formal internal policy for deciding what kinds of information should be disseminated to agencies and how that information should be communicated. A recent example is the omission of the reconciliation requirement from the draft for a *Notice to State Agencies* (NTSA); our audit brought this oversight to the Comptroller's attention, and it was corrected prior to distribution. The lack of formal policy increases the risk that agencies may not be receiving all important information via *Notices to State Agencies*. If they receive information by other means, they may not pay as much attention to it.
- **Timeliness of Guidance** - For fiscal year 1994, the Comptroller's Office was late in providing Annual Financial Reporting Requirements, training, and instructions on how to load balances into USAS. The Comptroller issued the requirements for agencies on August 26, 1994, and for universities on September 19, 1994. Training was held on October 11-13, 1994. Comptroller internal policies state that AFR training sessions should be scheduled in August, a few weeks after the distribution of the reporting requirements. This contributed to most agencies' difficulties in completing their AFR/USAS reconciliation and in loading their balances into USAS. As a result, USAS data did not accurately reflect some individual agency financial information. The Comptroller improved the timeliness of guidance and training for fiscal year 1995.
- **Communicating New Information to Comptroller USAS Staff** - There is no process to ensure that Comptroller's staff are notified of new or changed policies and procedures prior to their distribution to users. Also, there is no process to ensure that they receive applicable training before the distribution. This increases the risk that the Comptroller's staff could provide outdated or incorrect information to users. There were several instances where agencies received new policies and/or procedures before they were distributed to Comptroller personnel.
- **Clarity and Sufficiency of Guidance** - Some policies, procedures, and guidelines published by the Comptroller's Office would benefit from more clarification, examples, and an improved format. For example, the fiscal year 1994 technical guide on reconciling annual financial reports to USAS and loading AFR balances into USAS was confusing. In some cases, specific examples of entries were not provided, and the effects of using certain transaction codes were not clear.

In addition, some agencies stated that during the reconciliation process they did not understand explanations provided by the Financial Reporting Section for adjustments which needed to be made to their USAS records. This

increased the risk of inaccurate entries in USAS. It also contributed to agency problems in completing the AFR/USAS reconciliation. Until agencies gain a better understanding of how to reconcile and load balances, there is an increased risk that data will continue to be inaccurate.

- **Updating User Documentation** - USAS user documentation is not up-to-date. This increases the risk of user error since their documentation may reflect outdated information. Volume I of the user documentation has not been updated since its publication in 1993. An update is scheduled for January 1996. No plans exist for updating Volume II, which was last updated in 1994.

The Comptroller's Office has no procedures to ensure that user documentation is updated and that updates are distributed in a timely manner to users. The Comptroller's Office also has no procedure to ensure adequate coordination between the training and user documentation groups. Some information in the user documentation and training documentation is similar. The person responsible for user documentation is not notified of changes made to training documentation. This increases the difficulty in maintaining user documentation.

Recommendation:

The following recommendations could improve the way information is communicated to the agencies:

- The Comptroller's Office should establish and enforce formal criteria, policies, and procedures for disseminating information to state agencies. At a minimum, these documents should address the purpose, content, format, and numbering scheme of each type of statewide accounting publication.
- The Comptroller's Office should continue their improvement efforts to ensure that agencies receive guidance in a timely manner to enable them to effectively perform their responsibilities for statewide accounting.
- The Comptroller should ensure that all statewide accounting staff are informed and trained for any new or updated policies and procedures prior to distribution to users.
- The technical guides should include specific examples of required entries and their effects. The AFR technical guide should also include a step-by-step process on how to reconcile and make adjustments to USAS. A common format for reconciliations could be provided which would help standardize reconciliations. We recommend that the Comptroller continue their current CAFR/USAS work with state agencies until all balances are correctly and appropriately reflected in USAS.
- The Comptroller should update user documentation and establish procedures to ensure that user documentation is routinely updated and distributed.

Coordinating user documentation updates with the Application Change Request (ACR) quarterly software releases and related training documentation updates is an option to consider.

Management's Response:

This review has provided us with important feedback on how we can make improvements in our communication to the users of USAS. During the course of this audit we have already initiated the following changes:

- *Our office will review our processes used to disseminate accounting information to the agencies and universities. Where needed we will establish formal criteria, policies, and procedures.*
- *An updated Volume I of the USAS users manual is scheduled to be distributed in December 1995. Volume II is scheduled for revision in the summer of 1996. It is our goal to eventually merge both volumes and making it into an even more user friendly format. This manual will be periodically updated as needed.*
- *Procedures have been formalized for the development of all Notices to State Agencies (NTSA). These procedures will help ensure that all parties, both inside and outside the agency, are made aware of NTSA and provide approvals where needed. The procedures also help ensure that necessary training is identified and provided to our office's staff and the user agencies and universities. Comments and questions on potential NTSA's are also obtained from users.*
- *New avenues of communicating are being explored. A business calendar is now available through the Comptroller's Windows on State Government bulletin board. We also are planning on providing additional information through our USAS Home Page on the Internet.*
- *We are taking the following steps to improve on the timeliness of our communication efforts. Notices to State Agencies and technical bulletins are being scheduled to be distributed in advance of policy and procedural implementation. Financial reporting guidelines were distributed to agencies and universities a month earlier than the previous year. The training for financial reporting requirements was provided two months earlier than the previous fiscal year. It is our hope to improve on this benchmark in the coming years.*
- *The Annual Financial Reporting technical guide was expanded this fiscal year to 125 pages from last fiscal year's 18 pages. Seventy of those pages were to provide more examples. We also made the guide more user specific by creating three versions representing reporting agencies, internal users and higher education, rather than having one generic version. This past summer a*

group of test agencies were also brought in to review the guide and provide suggestions for improvement. To assist users who are less familiar with USAS, boxes providing basic user tips have been incorporated into the guide.

- *Course evaluations for the financial reporting and technical guideline training reflect that we are on the right track. We received comments such as : “this was a huge improvement over last year”, “much easier to follow than last year”, “the format of the technical guide is outstanding”, and “the technical guide is wonderful”.*

Changes to our communication style will not end with these improvements we have made over the course of this audit. We are guided by a vision of making USAS into a financial reporting system that is being used by agencies and universities because they want it, and not because they are mandated to use it. In order to accomplish this vision, we recognize the importance that our communication practices will play in making USAS a more user friendly system.

Section 2-C:

Improve Data Entry Controls, Reconciliation, and Data Monitoring and Analysis to Ensure USAS Data Accuracy

Some USAS reports and information may not be reliable for decision-making, especially at the statewide level. The data contained in USAS, the accounting system of record for the State, does not always match the published financial reports for the State, including the fiscal year 1994 Annual Financial Reports and the fiscal year 1994 Annual Cash Report. Another effect of USAS data inaccuracies is that key financial statements such as the Annual Cash Report must be prepared manually, or by a combination of downloading to other files for manipulation, or by working out data on spreadsheets.

Much of the USAS data is accurate and timely. However, our audit work detected errors and potential discrepancies in account balances and in profile information, which is used to determine how to process and report the various accounting transactions entered into USAS. While currently most of these errors affect the year-end reports, their impact will grow as state leaders begin using USAS more frequently to monitor financial progress throughout the year.

The correction of the data errors is especially critical to the successful production of annual financial reports from USAS for fiscal year 1996. The Comptroller’s CAFR/USAS work group (formed prior to our audit to address the production of the fiscal year 1996 Comprehensive Annual Financial Report from USAS) is addressing CAFR related data accuracy issues, including some of the issues identified in our audit data analysis work. The group has begun working with individual agencies to correct the data errors. Their work was not scheduled to be complete until after the end of our audit fieldwork, so final results could not be evaluated.

In addition to the lack of clarity and timeliness of statewide accounting policies and procedures, weaknesses in data entry controls, reconciliations, and data monitoring contributed to the data inaccuracies.

- During our review of 11 user agencies and the Comptroller's Office, we noted instances at some agencies of the following data entry control weaknesses:
 - Source documents are not grouped (batched) with record control totals of the number of transactions and total dollar amounts to ensure that all documents are entered with proper amounts.
 - Source documents are not marked as canceled after entry to prevent duplicate entry, which could result in extra work or, in the worst possible case, duplicate payments to a vendor.
 - Source documents are not signed or dated to document that entries were appropriately reviewed; such review is important in protecting against fraud or inaccurate coding or entry of accounting transactions.

Weaknesses in data entry controls over source documents can result in data errors, duplicate data, and unrecorded data.

- Both users and the Comptroller's Office need to reconcile USAS data in a more timely manner to ensure that adjustments, inconsistencies, or errors are identified quickly and corrected appropriately.
 - Most state entities did not complete the annual reconciliation to verify that USAS, as the system of record for the State, and the published annual financial reports (AFR) agree. Fiscal year 1994 was the first year USAS was operational, and most agencies encountered difficulties with this process. Agencies and universities varied in the amount of progress they made in resolving and posting the differences that existed between USAS and their AFRs.

In fiscal year 1994, the Comptroller's technical support and oversight for the new AFR reconciliation process contributed to agency difficulties. While the Comptroller provided ad hoc reports on request and offered other forms of assistance, they did not follow up to ensure that reconciliations were completed and that adjustments were entered into USAS correctly.

- Some reporting users are not completing their monthly agency/USAS reconciliations in a timely manner to ensure that USAS and agency internal accounting systems agree. Until all differences are identified and necessary adjustments posted, agency and statewide decision-making may be based on different information. In addition, not performing monthly reconciliations multiplies the difficulty and complexity of the annual reconciliation.

The Comptroller's *Notice to State Agencies* dated July 8, 1994, requires agencies to clear reconciliations no later than the following month's end or soon after completion of the reconciliation.

- The Comptroller's Office did not enter USAS adjustments to reflect the published 1994 Annual Cash Report for the State of Texas. This means that totals on reports produced directly from USAS (File Extracts) may not equal reports such as the Annual Cash Report produced from the Cash/Flow Unload File.

In order to prepare the report, the Comptroller's Office downloaded USAS data into a file called the Cash/Flow Unload. Exceptions or adjustments made to the Cash/Flow Unload File were not subsequently identified and recorded in USAS or documented for other users of USAS. Policies/procedures for preparing the cash report do not address such an adjustment process.

USAS should be maintained to ensure the integrity of transactions by including exceptions and adjustments made to produce external reports. If adjustments/reclassifications are valid, then USAS should reflect them.

- Neither the agencies nor the Comptroller's Office consistently or comprehensively monitor or analyze the USAS data to identify possible problems with the accuracy or consistency of statewide financial information. Such an analysis could help identify improvements in the automated system programs, in statewide policies and procedures, in USAS coding instructions, and in USAS profiles.

The types of data accuracy problems below could have been detected earlier if the users and the Comptroller's Office were regularly monitoring and analyzing the data:

- agency isolated use of a questionable transaction code
- inconsistencies between agencies in use of transaction codes for similar financial events
- inappropriate use of transaction and Comptroller object codes

If detected earlier, corrections would have involved fewer agencies and less manpower, and USAS data would be more reliable at this point.

The Comptroller's Office is statutorily responsible for managing and overseeing the ongoing operations of USAS and for ensuring that the USAS coding structure and data is reliable so that financial reports can be prepared in accordance with Generally Accepted Accounting Principles (GAAP). To effectively perform these functions, the Comptroller needs some method of ensuring that, on an ongoing basis, the USAS data is timely, accurate, complete, and consistent with applicable standards and statewide accounting policies and procedures. Ongoing or periodic analysis of the USAS data is an

effective method for this. USAS data must be reliable on an ongoing basis, not just at year end, for it to be useful for statewide financial decision-making.

Recommendation:

The Comptroller's Office and user agencies should place more emphasis on ensuring the accuracy of the data. The current efforts of the CAFR/USAS work group and the agencies are encouraging and should be completed.

Because USAS calculates balances from historical data, it is critical that agencies thoroughly research and correct all erroneous transactions. Agencies and the Comptroller's Office should finish correcting known errors and avoid the temptation to enter one-time "lump sum" adjustments to prevent the following risks:

- that the true cause of the error will not be determined and, thus, any system or procedural correction will not be addressed and the same type of error will continue to recur, or
- historical data will be unreliable for financial trend analysis

The Comptroller should formalize the research and correction procedures as an ongoing process in the Financial Reporting Section to increase the probability that similar errors are detected and corrected or prevented.

- All user agencies and the Comptroller should review and strengthen their controls over USAS data entry to ensure that data is accurate, complete, and not duplicated. These controls should be applied to regular accounting transactions and to profile changes, which significantly affect the processing of transactions.
- Reconciliation and adjusting entries should be completed on a timely basis.
 - The agencies should reconcile USAS and their AFRs to ensure that errors are identified and corrected. The Comptroller should monitor the process to help ensure timely completion. This will ensure accurate historical as well as current data for decision making.
 - All reporting agencies and universities should comply with the Comptroller's requirement for clearing monthly reconciling items in a timely manner.
 - The Comptroller's Office should review the propriety of making adjustments for external reporting purposes such as the Annual Cash Report without adjusting the USAS data. They should adjust the data in USAS as appropriate or document the adjustments for other users of USAS.

- As an oversight function, the Comptroller's Office should perform ongoing USAS data analysis to monitor agency compliance with GAAP and statewide accounting policies and procedures and to detect and correct errors as soon as possible. If errors in agency data are found, the Comptroller's Office should inform the agencies and monitor USAS to verify that the corrections are made. The Comptroller's Office may need to develop additional standard reports or inquiry screens to support improved, efficient monitoring and analysis of the USAS data.

Agencies should use standard reports, inquiry screens, and custom reports to monitor the USAS data for their agency. A periodic analysis should focus on compliance with statewide and agency accounting policies and procedures and consistency of accounting entries.

These steps will further ensure the ongoing reliability (accuracy, timeliness, completeness, and consistency) of USAS for statewide financial decision making.

Management's Response:

Our creation of a CAFR/USAS work group was an effort to improve on the accuracy of USAS data. We have also or will be taking the following additional steps to make improvements in the area of data entry, reconciliation, and monitoring:

- *Duties are being reviewed amongst our appropriation control officers to improve on proper segregation of duties for input and release of USAS data. We have also improved on our documentation of data entry performed by the Analysis and Allocation section.*
- *Our office will be developing more definitive procedures for reconciling USAS data to agencies AFRs. We will also be establishing accounting policies that direct a timely reconciliation to occur, along with adequate training on performing the reconciliation procedures. Lastly, we will perform monitoring to determine if the reconciliation has in fact occurred.*
- *We are planning on establishing a formal group to perform ongoing data analysis to identify and resolve issues on a timely basis.*

Any additional suggestions in this report will also be followed through in our attempts to improve the accuracy of the USAS data.

Section 2-D:

Improve Security over USAS and Related Systems to Better Protect State Resources

Fraud, as well as other errors and irregularities, could occur at agencies until measures are taken by the state agencies and the Comptroller's Office to strengthen security over

access to USAS and related systems. A Comptroller Claims Division post-audit identified a \$400,000 fraud caused by inadequate separation of duties at an agency. Factors which contributed to the occurrence of fraud or which could contribute to other breakdowns in controls include the following:

- Agencies sometimes designate a state employee who can enter and release transactions as the authorized person responsible for approving and setting up new vendors on TPIS. Also, some agencies do not consistently use user classes to limit the types of transactions that can be entered by an employee.

The Comptroller does not analyze access to USAS to detect these and other possible problems or exposures. Until recently, an automated audit trail did not exist that would identify who released a transaction into USAS. This made it more difficult to identify transactions entered and released by the same person.

- During our review of 11 agencies and the Comptroller's Office we noted several instances of agencies not properly reviewing employee access needs or making determinations of what is appropriate, necessary, or needed for employees to do their job. For example, some agencies were granting an individual both entry and release (approval) capabilities when it was unnecessary for their job. Some were granting USAS inquiry or entry access to employees who did not need it for their job duties. Also, agencies were not consistently deleting access for terminated or transferred employees or conducting periodic reviews of security access for all personnel.

The Comptroller's *Notice to State Agencies* concerning security over USAS, in effect since August 1993, does not require state agencies to periodically review access to USAS. The policies and procedures, written and distributed prior to implementation of USAS, were designed to enable the security coordinators at the agencies to evaluate their security and to make changes prior to implementation.

- Agency security coordinators would benefit from additional training. Currently, the extent of security training is that which is provided to all USAS users in the USAS Basic and Advanced Training classes.

Recommendation:

The Comptroller's Office and the agencies should immediately take the following measures to tighten security controls to prevent fraud from occurring again and to identify and reduce the risk of exposure to other errors and irregularities:

- The Comptroller should identify and analyze the risks of state employees having access to multiple statewide financial systems which would allow them to perpetrate fraud. Stricter security access policies and procedures should be established and enforced to minimize such risks.

In particular, the Comptroller should establish a procedure to periodically identify agencies that designate an employee, who can enter and release USAS transactions, as the person authorized to set up new vendors on TPIS. The procedure should require specific agency acknowledgment of the risk of this situation and the compensating controls established at the agency level to protect state assets.

The Comptroller should also periodically analyze statewide and agency-level access to detect other possible problems or exposures. For example, they could review transactions that are entered and released by the same individual. This can be done by designing a program that would extract transaction information. Reports could be distributed to agency internal audit departments to assist in this review.

- The Comptroller should update and enhance guidance provided to agency security coordinators. It should address how user classes and other USAS features can be used to effectively control access and support key controls such as separation of duties. Guidelines, policies, and procedures for granting or removing access should be enhanced and should address termination, transfers, or changes in job duties. The Comptroller should consider requiring written justification from requesting agencies for granting both input and release access to a single user for a specific transaction type. Exit procedures should include notification to Information Systems Security and USAS Security. The Comptroller's Office could facilitate this process by improving coordination between its mainframe and USAS security groups.

Agencies should be required to review user access for all agency personnel semi-annually to ensure that all users are still employed with the agency and that their level of access is necessary for their job duties. The Comptroller may want to require written confirmation from agencies that they have periodically reviewed each employee's USAS security access.

- The Comptroller should consider providing the security training separately from the USAS overview classes. This would allow security coordinators to more efficiently obtain the specific training they need. Expanding and reorganizing the training provided to the user agency security coordinators could reinforce the updated policies and procedures and provide additional guidance on access controls. Attendance should be required.

Management's Response:

We agree with the auditor's recommendations to improve on the security of USAS. We have taken or will take the following action regarding their concerns:

- *As mentioned in the report, it is only recently that we now have the capability of identifying employees who have access to multiple statewide systems. We will be able to alert agency administrators of personnel whose duties should*

be more adequately segregated. In addition we will prepare a statewide policy that will require agency security coordinators to verify that users of USAS with update and entry authority do not also have update authority in TPIS. This policy and a list of agency security coordinator responsibilities will be distributed in January of 1996. A list of users with the above combinations will be provided to the agencies and universities in March of 1996. This list will be periodically updated.

- *The revised issue of the USAS Security Procedures, to be issued in January of 1996, will include the guidance recommended in this finding.*
- *We agree with the recommendation that a better process is needed for user exit procedures. These aspects of security administration are now under review and appropriate procedures will be included in the revised issue of the USAS Security Procedures.*
- *A Notice to State Agencies requiring agency security coordinators to verify USAS user access levels is planned for distribution in December, 1995.*
- *A project team is currently in the process of developing a training plan for all agency security coordinators. This plan will outline the training curriculum and attendance schedules. This plan is due for completion by January 1996.*

Section 3:

Improved USAS Systems Development Processes Would Reduce the Risk of System Problems and Increase Efficiency

Key elements of a systems development methodology are omitted or not fully implemented, increasing the risk of system problems and decreasing efficiency of the enhancement and maintenance work. Not adhering to an adequate methodology contributed to the delayed implementation of USAS, postponement of several USAS functions, and the current backlog of Application Change Requests (ACR). These are common risks often associated with lack of adherence to a system development methodology.

Weaknesses and omissions in the ACR and project management processes for USAS include the following:

- **Lack of Well Defined System Development Processes**- There are no documented processes detailing the content and format of the deliverables for the various phases of development or maintenance and the activities required to produce the deliverables. Expected processes and deliverables are not clearly defined for current initiatives such as the CAFR Work Group and the Phase III initiatives. However, the Comptroller is using one Phase III initiative, Accounts Receivable, to prototype the content and format for a deliverable defining business needs.

Without a methodology in place to guide activities, especially those performed by personnel without extensive experience, the risk increases that desired deliverables will not result.

- **Incomplete Documentation** - The technical systems documentation is not yet complete for USAS. In addition, the user documentation has not been updated.

This lack of documentation contributed to Phase III teams needing to assess current USAS functionality for their subject areas as part of the business requirements definition.

- **Incomplete Systems Analysis** - The functional analyst staff does not consistently identify the overall impact of a requested change to USAS prior to programming and testing. Individuals with overall knowledge of USAS should perform thorough systems analysis to identify the impact of the proposed change to all existing system components, related systems, and the user procedures. In general, the technical programming staff has a more detailed and thorough understanding of USAS functionality, and thus identifies systems analysis problems during programming and testing. The risk of inadequate systems analysis is that inefficiencies will result in having to redo work once the error is discovered.
- **Inconsistent User Involvement** - An internal audit Internal Controls Report issued in January 1995 stated that “user acceptance testing does not occur.” Part of the Comptroller’s response indicated that there would be increased emphasis in this area. However, our testing of recent ACRs did not indicate consistent user involvement in testing.

The Comptroller’s Office describes persistent difficulty in getting enough users involved in ACR testing and sign off. Moreover, the differing needs of oversight agencies, internal users, and reporting users often conflict, complicating priority setting of ACRs.

Without adequate user involvement in the ACR process, the risk increases that users’ needs may not be met by a completed ACR. This results in an inefficient use of resources since users then submit yet another ACR for their still unmet needs.

- **Incomplete Project Management** - Project management practices for USAS development and maintenance do not include enough emphasis on personnel resource allocation, coordination between work groups, and quality assurance. As mentioned in Section 1-C, Comptroller management normally requires deadlines for assignments, but does not require manpower estimates or tracking. Most sections involved in systems development emphasize deadlines and keep management informed of progress via written status reports and informal meetings. However, status reports are not tools by which management can monitor activities because they normally include only accomplishments. Usually omitted are unfinished work, unmet deadlines, and

problems which may need management's attention. The creation of new migration planning procedures to coordinate between ACR work groups was a positive step, but the procedures are not yet consistently followed.

Project management should involve the close monitoring of user satisfaction, quality control, and resource utilization. Specific activities should include defining milestones, developing schedules, monitoring and reporting progress, ensuring timely delivery, and providing effective resource and budgetary controls. Quality assurance should address client satisfaction as well as improvements in the quality of the software development process.

The technical group responsible for programming and testing does emphasize personnel resource planning. This group estimates manpower per ACR and tracks workloads and schedules, increasing the probability that deadlines are realistic and met, or that scheduling and workload problems are identified as early as possible.

A clearly defined and implemented methodology for information systems development and maintenance helps to ensure that computer systems achieve their intended benefits in a cost-effective manner. The methodologies direct the management and support processes that continue throughout the life cycle, as well as all aspects of the software life cycle from concept exploration through retirement. Adequate methodologies help to detect and correct problems as early as possible, preventing the escalating cost of problems left undetected until later phases of the project.

The Institute of Electrical and Electronics Engineers *Standard for Developing Software Life Cycle Processes* (IEEE Std 1074-1991) provides a standard for software development and maintenance. The IEEE standard states that the maintenance process should be treated as iterations of the development process. For large system maintenance activities, a systems development methodology should be followed in its entirety. For small system maintenance activities, a reduced version of the methodology may suffice. The level of USAS enhancements needed, including the CAFR and Phase III initiatives, dictates the need for a comprehensive systems development methodology.

Recommendation:

The Comptroller should clearly define all key processes for maintenance and enhancement of USAS and establish an ongoing quality assurance function to monitor and assess the adequacy of these key processes. Mapping the current ACR and project management processes with the IEEE Standard 1074-1991 would identify which key processes are currently addressed and possible weaknesses in those processes. Unmapped IEEE processes indicate areas which need to be addressed for a USAS methodology.

The following recommendations address the specific weaknesses and omissions noted above:

- The Comptroller should formalize and document its development processes and deliverables to provide consistent guidance to all staff at all levels of skill and experience. Standard processes and deliverables could also improve communication between sections working independently on a system change. Among the processes needing formal definition and clarification are systems analysis, functional analysis, technical analysis, alternatives definition and assessment, and problem definition. We encourage efforts, such as the Accounts Receivable prototyping of deliverables, to identify workable processes for the USAS environment. The Comptroller could also identify “best practices” among the staff that can be adapted for general use.
- The Comptroller USAS functional personnel should consistently perform, document, and review system and business analyses prior to programming to reduce rework due to analysis errors. Improving USAS knowledge of the functional staff is essential to remedying this situation. Temporarily increasing technical staff involvement in functional analysis may speed this knowledge transfer.
- The Comptroller’s Office should continue striving to obtain user participation at critical points of the development process. User involvement in defining and approving functional requirements and in testing is needed to ensure that their business requirements have been understood and met. This effort is dependent upon both the Comptroller’s Office and USAS users. Therefore, all USAS users need to take an active role by participating in the USAS development process whenever possible.
- The Comptroller should more consistently estimate and monitor manpower requirements and improve status reporting for system development efforts to minimize implementation delays and ensure the quality of system enhancements.

The Comptroller should continue quality assurance initiatives and standardize them as part of the project management process.

Finally, management should periodically monitor and evaluate ACR processes and controls to ensure they are working cost effectively.

Management’s Response:

We agree that all key processes for the maintenance and enhancement of USAS should be more clearly defined. We have already made the following improvements:

- *The ACR process documentation has been revised to integrate the IEEE maintenance methodology in the system maintenance process. The new documentation specifies roles, activities, and deliverables for each element of the process. Examples of deliverables are included in the documentation to clarify the requirement for each deliverable.*

- *An analysis phase for the complex ACRs has been added to the ACR process. This phase includes clarification of statement of need, potential approaches, constraints, benefits, costs, and recommendation. The user representatives have endorsed this concept and are considering feasibility studies for prioritization in the next release.*
- *The ACR process has been modified to require the involvement of a reviewer from the user (s) agency that requested the modification. ACR's are not considered complete until there is a formalized sign off by the reviewer. The reviewers who have participated in the process have expressed satisfaction with it.*
- *As mentioned above, our office will look further into the feasibility of estimating manpower requirements.*

Issue for Further Study

Individual Agency USAS Reviews: Most agencies and universities could benefit from a review of USAS and statewide accounting processes and controls. Our limited sample of 11 agencies and universities indicate that security, reconciliations, and data entry controls are the most likely areas for improvement. Improvements at the agency level are critical to the overall reliability of USAS data.

Two additional areas of concern mentioned during the audit were availability of resources and personnel expertise levels. These are two possible causes for inefficiencies and weaknesses at the agency level. The Comptroller's Office has implemented various technical solutions to user concerns about access to USAS information. However, agencies must use their internal funds to procure any technological tools needed. Likewise, some agencies report that USAS processing is more complex and time consuming than FACTS processing. This is to be expected for the advanced accounting capabilities and functionality of USAS. The complexity of USAS requires personnel to be more knowledgeable about accounting as well as USAS.

Internal auditors could perform USAS reviews at their agencies. The State Auditor's Office will continue to address these issues in conjunction with management control audits. Actions recommended in this report will also enable the Comptroller's Office to help agencies prevent, detect, and correct weaknesses.

Objectives, Scope, and Methodology

Objectives

Our primary objective was to assess the adequacy of the Uniform Statewide Accounting System (USAS) as a comprehensive statewide accounting system. Secondary objectives included the following:

- to assess the accuracy of and controls over USAS data
- to assess the adequacy of USAS in meeting design specifications and user needs
- to assess the role of the Comptroller's Office in managing and overseeing statewide accounting

Scope

The scope of this audit included consideration of the following issues:

- Adequacy of USAS for decision-making and financial monitoring
- USAS compliance with Generally Accepted Accounting Principles and good business practice for state governmental financial accounting
- Comptroller's Office management and oversight of statewide accounting
- USAS user assistance
- Data accuracy problems in USAS and their cause
- Internal controls at the Comptroller's Office and at user agencies
- USAS system development processes

The scope included review of controls over USAS and statewide accounting at the Comptroller's Office and at the following 11 state agencies and universities:

- Texas Department of Transportation
- Lottery Commission
- Department of Information Resources
- Structural Pest Control Board
- Department of Commerce
- Employees Retirement System
- Racing Commission
- Adjutant General's Department
- Public Utility Commission
- Court of Criminal Appeals
- Texas Tech University

Our work at the Comptroller's Office primarily involved the Fiscal Management and Statewide Systems Development Divisions. Fieldwork was conducted from March 1995 through August 1995.

Methodology

The audit methodology consisted of the following:

- Interviews with Comptroller's Office management and staff
- Interviews with management and staff involved in accounting at the 11 selected agencies and universities
- Interviews with oversight agencies
- Observation of Comptroller's Office and user agency meetings
- Limited data collection at various state agencies and universities regarding statewide accounting and USAS
- Review of controls over statewide accounting at the Comptroller's Office and the 11 selected state agencies and universities
- Review of the automated system development processes and controls for USAS
- Detailed automated analysis of USAS data

The following criteria were used:

- Statutory requirements
- *State Auditor's Office Project Manual System: The Methodology*
- *State Auditor's Office Project Manual System: The HUB*
- Other standards and criteria developed through secondary research sources (See Reference List in Appendix 3-1)

Other Information

The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

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

- Carol Noble, CISA (Project Manager)
- Sandy Bootz, CISA
- Linda Buford, CPA
- Fran Carr, CPA
- Odie Cruz, CPA
- Ernest Cuellar
- Joe Curtis, CPA
- Michael Doerr, MBA
- Ed Dorotik, CPA
- Susan Driver, CPA
- Eric Emmerich
- Paul Flores
- David Gaines, CPA

- Judy Anderson Hatton, CISA
- Nancy Hennings, CPA
- Bill Hurley, CPA
- Cyprain Ihekwoaba, CPA
- Michelle Joseph, CPA
- Dave Launey
- Gary Leach
- Susan McClean, CPA
- Thomass Ng, CPA
- Marios Parpounas
- Patricia Perry-Williams, CISA
- Janet Reynolds, CPA
- Terri Wallace
- Debi Weyer
- Eric Williams, CPA
- Frianita Wilson
- Paul Garner (Audit Manager)
- Charlie Hrcir, CPA (Audit Manager)
- Craig D. Kinton, CPA (Audit Director)

Chronology and Cost of the USAS Project⁶

FISCAL YEAR	EXPENDITURES	PROJECT MILESTONES
1987	\$ 0	- H.B. 1785, 70th Texas Legislature, established the USAS Committee to recommend the design for an automated accounting system. - Project to design the accounting component of USAS began.
1988*	851,324	- Uniform Statewide Accounting Project (USAP) design project completed in August 1988. - Report to the USAS Committee in December 1988 for their approval. Report recommended a design for an automated accounting system which could be used by all agencies of state government, including institutions of higher education.
1989*	28,816	- S.B. 985, 71st Legislature, directed the Comptroller to develop and implement USAS. - Request for Proposal (RFP) issued in August 1989.
1990*	3,630,774	- Contracts with Andersen Consulting and Peat Marwick signed. - USAS development project began on January 13. - Functional specifications were revised.
1991	6,012,550	- System design and development.
1992	5,763,582	- Initial acceptance testing completed in May 1992. - The USAS development project team published <i>Statement of Condition</i> , which addressed the level of effort remaining to implement the system.
1993	8,592,823	- A review of the September 1992 <i>Statement of Conditions</i> was performed to describe each component and its outstanding issues/problems as defined at September 1, 1992, and its current status as of September 1, 1993.
1994	6,090,899	- Phase I: USAS became the accounting system of record for the State on September 1, 1993. - Phase II: Completion of the year-end closing process, except for the annual financial reports (AFRs).
1995 +	2,685,473	- Phase III: Begin to identify business requirements for five components not yet implemented, i.e., fixed assets, recurring transactions, grant/project billing, bonds, accounts receivable and cash receipts, and reports.
1996 [^]	6,800,000	- Annual financial reports scheduled for implementation. - Various Application Change Requests (ACRs) for enhancements, system bugs, etc.
1997 [^]		- Implementation of additional AFR reports tentatively scheduled. - Various Application Change Requests (ACRs) for enhancements, system bugs, etc.
TOTAL	\$40,456,241	

* These figures do not include salary expenditures for the USAS project for fiscal years 1988 through 1990.

+ This figure is current as of June 1995.

[^] \$6.8 million is the estimated budget for USAS for fiscal years 1996 and 1997 combined. This includes a portion of the administrative cost for the Statewide Systems Development Division.

⁶Unless noted, these figures do not include administrative costs, telecommunications costs, master lease expenditures, or ongoing operations of the Fiscal Management or Data Services Divisions. Also not reflected in these figures are the resources contributed by agencies and universities to help develop, test, and convert to the new system.

Status of USAS Functionality

(as of October 1995)

As illustrated in the schematic drawing⁷ on the following page, many of the core components of USAS are fully implemented. Other core components, while implemented, have pending enhancements or problems to be addressed. Some non-core components have not been implemented. The table following the schematic provides brief descriptions and status of the various components of USAS.

The main components or subsystems are in all capitals in the table and the schematic drawing. Sub-components are in upper and lower case. The status of each is indicated in bold type in the table. The status “**fully implemented**” means that any outstanding requests for changes to that component are types commonly associated with the ongoing maintenance of a mature automated system.

The USAS Application Change Request (ACR) process tracks all system changes and problems formally reported and documented. ACRs may indicate the existence of system bugs, requested enhancements, or the need for training, documentation, or other nonprogramming-related solutions. With regard to programming changes, an individual ACR can represent anything from a single line change in a program to the development of a major subsystem.

References to USAS documents are coded as follows:

SOC - *Statement of Condition* issued in 1992; defines Phase I, Phase II, and Phase III.

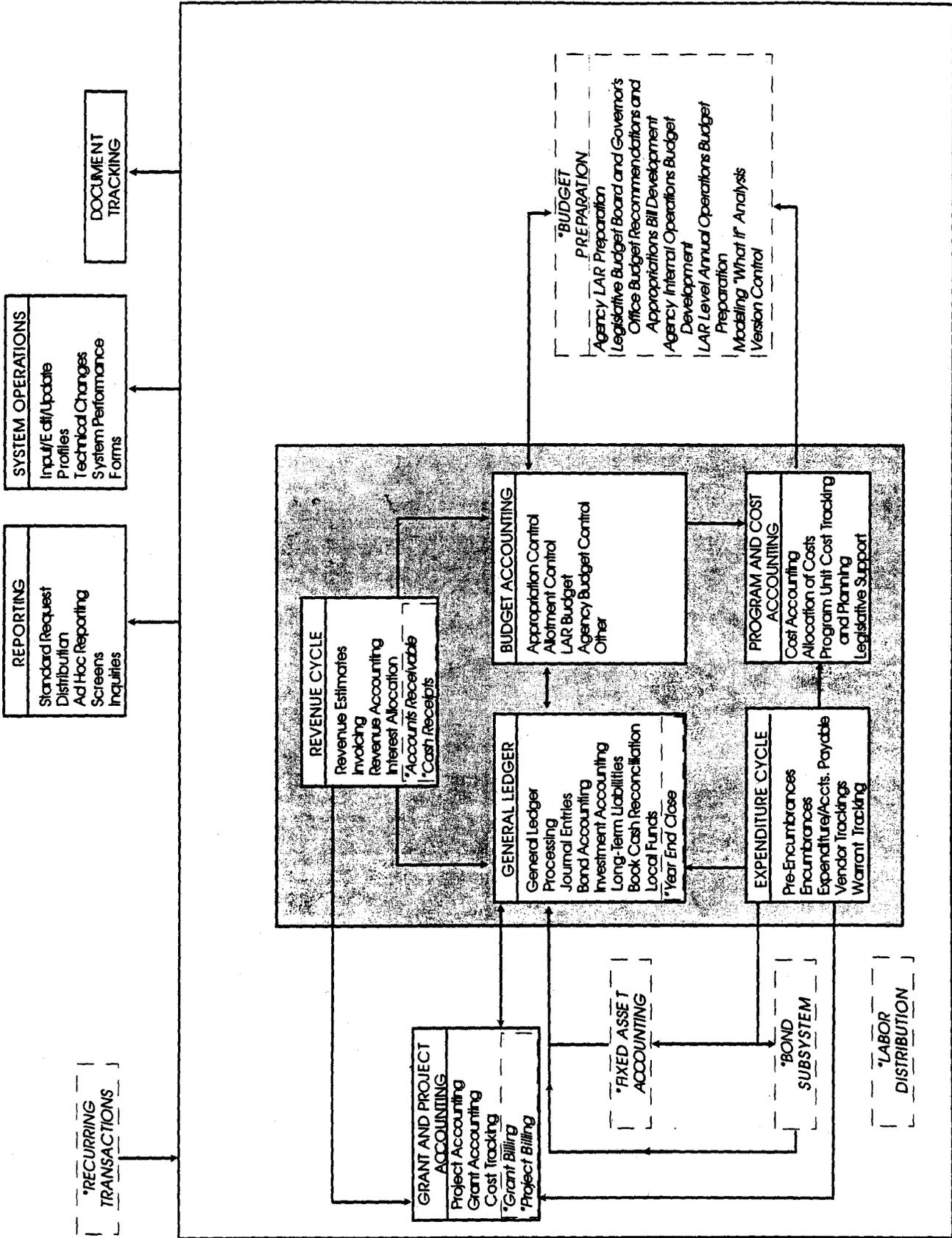
PDP - *Project Development Plan* published in May 1994.

PIER - *Post Implementation Evaluation Report* published in June 1995.

ALL CAPS - Main components or subsystems

Upper and Lower Case - Subcomponents

⁷Adapted from *Final Report to USAS Committee*, December 1988, Volume I of III, p. 15.



* Unimplemented subsystem or feature

Component/Function/Feature/Subsystem	Reference	Current Status
<ul style="list-style-type: none"> BUDGET ACCOUNTING - monitors the status of each appropriation established in the General Appropriations Act and ensures that spending authority and amounts are not exceeded. 	SOC Phase I PDP	Fully Implemented
<ul style="list-style-type: none"> REVENUE CYCLE - provides processing and control capabilities for revenue in USAS while tracking deposits, wire transfers, and refunds and also reporting summary accounts receivable and cash receipts information. 	SOC Phase I PDP PIER	Not fully implemented--see Accounts Receivable/Cash Receipts below. Interfund transfer processing was modified during the audit.
<ul style="list-style-type: none"> Accounts Receivable/Cash Receipts - detailed recording and tracking of accounts receivable and cash receipts for USAS internal agency accounting needs. 		Not implemented . Enhancements needed to provide full agency-level capabilities for Accounts Receivable and Cash Receipts Functions. Phase III initiative addressed Accounts Receivable/Cash Receipts to determine if still needed and, if so, to determine the business requirements. ACR for Accounts Receivable feature submitted but not yet scheduled.
<ul style="list-style-type: none"> EXPENDITURE CYCLE - controls the State's encumbrance, expenditure, and disbursement activities and provides on-line access to voucher records, consolidates payments to payees, standardizes payment reporting, and delays payments until the due date. 	SOC Phase I PDP	Fully Implemented ACRs pending. Interfund transfer processing was modified during the audit.

References to USAS documents are coded as follows:

SOC - *Statement of Condition* issued in 1992; defines Phase I, Phase II, and Phase III.

PDP - *Project Development Plan* published in May 1994.

PIER - *Post Implementation Evaluation Report* published in June 1995.

ALL CAPS - Main components or subsystems
Upper and Lower Case - Subcomponents

Component/Function/Feature/Subsystem	Reference	Current Status
<ul style="list-style-type: none"> GENERAL LEDGER ACCOUNTING - maintains a self-balancing set of accounts for each fund in USAS and records journal entries from the activities of other USAS functions. 	SOC Phase I PDP	Fully implemented
<ul style="list-style-type: none"> Year-End Close - includes the procedures and processes required to close the accounting books at fiscal year-end on August 31. Also includes the hard cash close procedures performed by the Fund Accounting Division of the Comptroller's Office. 	SOC Phase II	Implemented except for annual financial report (AFR) production Enhancements for encumbrance processing in progress
<ul style="list-style-type: none"> PROGRAM AND COST ACCOUNTING - allocates indirect costs from expenditure transactions to cost pools so that the full costs of strategies within an agency are recorded. 	PDP	Fully implemented NOTE: This does not include cost accounting at the grant and project level. See grant billing, project billing, and labor distribution below.
<ul style="list-style-type: none"> Cost Allocation - provides the ability to distribute overhead or indirect costs that cannot be routinely identified to a direct cost pool at the time of the occurrence. 	SOC Phase III	Fully implemented
<ul style="list-style-type: none"> BOND SUBSYSTEM - provides a bond tracking system and the ability to prepare the bond reports that are included in the annual financial report. 	SOC Phase III PIER	Not yet implemented Phase III initiative determined that the need for the subsystem still exists and defined the business requirements. ACR submitted but not yet scheduled.
<ul style="list-style-type: none"> LABOR DISTRIBUTION SUBSYSTEM - would allow for the allocation of personnel-related costs to appropriate elements of the classification structure (e.g., grant, agency program). 	SAO Report 5-046	Not implemented; plans unknown

References to USAS documents are coded as follows:

SOC - *Statement of Condition* issued in 1992; defines Phase I, Phase II, and Phase III.

PDP - *Project Development Plan* published in May 1994.

PIER - *Post Implementation Evaluation Report* published in June 1995.

ALL CAPS - Main components or subsystems
Upper and Lower Case - Subcomponents

Component/Function/Feature/Subsystem	Reference	Current Status
<ul style="list-style-type: none"> • GRANT ACCOUNTING - provides for the ability to accumulate grant expenditures, revenues, receipts, budgets, and statistical information through the use of a grant number and phase. 	SOC Phase I PDP	Not fully implemented--see grant billing below
<ul style="list-style-type: none"> • Grant Billing - allows for the accumulation of cost information for various types of grants and automatically generates accounting transactions which record the effect of billing on the costs incurred. 	SOC Phase III	Not implemented Business requirements have been partially determined and ACRs submitted. ACR further analysis not yet scheduled.
<ul style="list-style-type: none"> • PROJECT ACCOUNTING - provides for the ability to accumulate project expenditures, revenues, receipts, budgets, and statistical information through the use of a project number and phase. 	SOC Phase I PDP	Not fully implemented; see project billing below
<ul style="list-style-type: none"> • Project Billing - allows for the accumulation of cost information for various types of projects and automatically generates accounting transactions which record the effect of billing on the costs incurred. 	SOC Phase III	Not implemented Business requirements have been partially determined and ACRs submitted. ACR further analysis not yet scheduled.

References to USAS documents are coded as follows:

SOC - *Statement of Condition* issued in 1992; defines Phase I, Phase II, and Phase III.

PDP - *Project Development Plan* published in May 1994.

PIER - *Post Implementation Evaluation Report* published in June 1995.

ALL CAPS - Main components or subsystems

Upper and Lower Case - Subcomponents

Component/Function/Feature/Subsystem	Reference	Current Status
<ul style="list-style-type: none"> FIXED ASSETS - provides detailed subsidiary financial accounting for fixed asset accounts in USAS and detailed physical identification of capitalized assets and inventoried assets. 	SOC Phase I PIER	<p>Not implemented Due to problems discovered during testing, development and implementation of this USAS component was postponed until Phase III. Subsequently, a separate State Property Accounting (SPA) system was implemented.</p> <p>A recent Phase III initiative addressed unimplemented fixed asset specifications. All ACRs created in this part of Phase III are targeted for the SPA system.</p>
<ul style="list-style-type: none"> BUDGET PREPARATION SUBSYSTEM - a management tool to be used in the planning, budgeting, execution, and monitoring aspects of the state budgeting cycle. 	SOC Phase III	<p>Not implemented; plans unknown</p>
<ul style="list-style-type: none"> REPORTS - allows users to define, from a predetermined list of production reports, the level of detail, the frequency, the output media, and the output location for reports. Includes standard, control, and ad hoc reports. 	SOC Phase I PDP PIER	<p>Implemented, with enhancements in progress Report Solutions Task Force currently addressing problems related to reporting. Problems are not all due to computer program problems. Report ACRs have received high priority during the past year. Electronic distribution of ad hoc reports is implemented.</p>
<ul style="list-style-type: none"> Screens - includes various screens used for profile maintenance and transaction entry in USAS. 	SOC Phase I	<p>Fully implemented ; some enhancement and system bug ACRs outstanding .</p>

References to USAS documents are coded as follows:

SOC - *Statement of Condition* issued in 1992; defines Phase I, Phase II, and Phase III.

PDP - *Project Development Plan* published in May 1994.

PIER - *Post Implementation Evaluation Report* published in June 1995.

ALL CAPS - Main components or subsystems

Upper and Lower Case - Subcomponents

Component/Function/Feature/Subsystem	Reference	Current Status
<ul style="list-style-type: none"> Inquiries - includes the various USAS inquiry screens used at any time for reviewing current financial data. It provides significant on-line data to assist the users in transaction entry, error correction, and accounting monitoring. 	SOC Phase I	Implemented, with enhancements in progress
<ul style="list-style-type: none"> RECURRING TRANSACTIONS - Automated process to enter repetitive financial transactions into USAS per the use of the "generate schedule." Transactions can be entered on-line or through the batch process. 	SOC Phase III	Not Implemented , but Phase III initiative determined that additional needs should be addressed and defined business requirements. ACRs submitted and scheduled for completion.
<ul style="list-style-type: none"> DOCUMENT TRACKING - reconciles and monitors financial documents as they flow through the State's approval process. 	SOC Phase I PDP	Fully Implemented ACRs pending
<ul style="list-style-type: none"> SYSTEM OPERATIONS - various functions required for ongoing maintenance of data and general operating capabilities. 	SOC Phase I	Implemented, with enhancements in progress
<ul style="list-style-type: none"> Input, Edit and Update - performs key processes of reading the accounting transactions generated by USAS and other subsystems and interfaces, editing the accounting transactions, reporting and errors detected, and updating the financial tables in USAS. 	SOC Phase I	Fully implemented
<ul style="list-style-type: none"> Profiles - used to control the processing and to indicate valid codes and conditions; they can be maintained by accounting personnel through profile maintenance activity without requiring reprogramming of the system. 	SOC Phase I	Implemented, with enhancements in progress

References to USAS documents are coded as follows:

SOC - *Statement of Condition* issued in 1992; defines Phase I, Phase II, and Phase III.

PDP - *Project Development Plan* published in May 1994.

PIER - *Post Implementation Evaluation Report* published in June 1995.

ALL CAPS - Main components or subsystems

Upper and Lower Case - Subcomponents

Component/Function/Feature/Subsystem	Reference	Current Status
<ul style="list-style-type: none"> • Technical Changes (not a component of the system) - required changes or enhancements to the software which affect the entire system. 	SOC Phase I	Ongoing activity, typical for maintenance
<ul style="list-style-type: none"> • System Performance (not a component but integral feature affecting the entire system) - was measured using results from stress tests related to CPU time, clock time and, relevant DB2 statistics. 	SOC Phase I	Ongoing activity, typical for maintenance
<ul style="list-style-type: none"> • Forms - include those commonly used for profile maintenance and transaction entry (vouchers). 	SOC Phase I	Fully Implemented
<ul style="list-style-type: none"> • Interfaces - contains all the central interfaces required (including those associated with TPIS), the printing of warrants and the Treasury extract file. A standard extract is available and contains all payment and accounting information for all activity submitted by an agency. 	SOC Phase I	Implemented , but merge of Treasury with Comptroller's Office may require system changes.

References to USAS documents are coded as follows:

SOC - *Statement of Condition* issued in 1992; defines Phase I, Phase II, and Phase III.

PDP - *Project Development Plan* published in May 1994.

PIER - *Post Implementation Evaluation Report* published in June 1995.

ALL CAPS - Main components or subsystems

Upper and Lower Case - Subcomponents

Detailed Status of Original USAS Objectives

Original Objective	Current Status
<p>Meet State and GAAP Financial Reporting Requirements</p>	<p>USAS is designed to maintain accounting data consistent with GAAP and National Association of College and University Business Officers standards. However, USAS does not yet have the capability to directly produce annual financial reports (AFR). USAS provides the basic general ledger information that could be used to produce the AFRs. The Comptroller's strategy has been to phase in the use of USAS data for producing the AFRs; the current target date for implementation of the first phase is the end of fiscal year 1996.</p>
<p>Meet Agencies' General Accounting Requirements And, Thus, Reduce the Number of Separate Accounting Systems in the State</p>	<p>Based on the original cost/benefit study, the Comptroller has been successful in achieving this objective. The 1988 specifications for USAS set the objective of only 30 agencies to be internal users by the end of the second year of operation.</p> <p>As of September 1995, 105 "internal" user agencies use USAS as their internal accounting system. The other 137 "reporting" user agencies and the 63 universities continue to maintain their own internal accounting systems and, in addition, report information to the central USAS data base (usually via an automated interface). Most internal users are small agencies.</p> <p>USAS was never intended to fulfill all individual agency and university accounting and financial information needs. Agencies with adequately functioning accounting systems, special accounting needs, or desiring a fully integrated financial system will continue operating individual accounting systems. Factors impacting the number of internal USAS users include the following:</p> <ul style="list-style-type: none"> • A consequence of undertaking a phased implementation approach was that certain USAS components, such as grant billing, were not in place on September 1, 1993. This may have caused some agencies to decide at implementation time to be "reporting" rather than "internal" agencies. • The Comptroller's Office does not use its legislative authority to require agencies to use USAS when replacing their internal accounting system. • Currently, the desire of some agencies to have fully integrated financial information systems (including such functions as purchasing) causes them to remain reporting agencies. • The Comptroller's Office is working with some agencies to procure a client/server accounting system for reporting agencies. This approach, while providing more timely and customized financial information to its users, could ultimately shift some cost to internal agencies which become reporting agencies.

Original Objective	Current Status
<p>Provide Accurate and Consistent Information on a Timely Basis</p>	<p>USAS capabilities, as well as changes in statewide accounting legislation, policies, and procedures, have resulted in more timely processing of payments and recording the expenditures of state funds.</p> <p>While much of the information on USAS is accurate, consistent, and timely, improvements can be made. The timing and accuracy problems noted with USAS data particularly affect management information and reports produced by the system. There is no strong incentive or enforcement power to ensure that agencies report complete and accurate data.</p> <p>The reporting agencies and universities have little inherent incentive to ensure that the data they submit is accurate since they make all internal decisions based on their internal accounting system reports. Keeping their internal accounting systems reconciled with USAS is an additional workload concern.</p> <p>Internal users have a stronger incentive to maintain complete and accurate data in USAS since they use it to make financial decisions. However, a few internal users maintain dual accounting systems and, therefore, have less incentive to maintain the central data.</p> <p>Another possible factor impacting the accuracy of the data is the level of expertise of the accounting personnel coding and approving the accounting data for USAS. A more in-depth knowledge of accounting is required to perform tasks under USAS as compared to FACTS.</p> <p>The USAS data base includes year-end balances, some of which were entered incorrectly. Likewise, some data, such as cost allocations and encumbrances, are not entered as frequently as was originally intended.</p>
<p>Reduce the Cost of the State's Accounting and Budgetary Processes</p>	<p>Not all of the budgetary functions have been implemented. It is unknown at this point whether USAS will actually lower the cost of the State's accounting and budgetary processes. We did not identify a measurement system specifically designed to collect or monitor such cost data.</p> <p>Agencies have experienced increased workloads in the USAS environment, as well as the need for a higher level of accounting expertise than required for FACTS agency functions; these factors increase state costs.</p>
<p>Provide Better Accountability by Means of a Cost Accounting System</p>	<p>USAS provides cost accounting capability to the object code level, which was the original intent of the system design. It includes a cost allocation function, which allows agencies to aggregate data by administrative overhead activities and then periodically allocate these expenses to the appropriate strategies.</p> <p>The USAS cost accounting capability was not intended to support activity-based or detailed grant and project cost accounting. ⁸ A labor distribution ⁹ function, which would facilitate the allocation of employees' pay to multiple projects or activities, would be required for comprehensive project or activity-based cost accounting.</p>

⁸The Federal Accounting Standards Advisory Board recommends requiring activity-based cost accounting for entities receiving federal aid, effective September 30, 1996. This may entail more detail than provided by the current object codes.

⁹Various opinions exist about what a labor distribution subsystem should entail, as well as whether it should be a USAS or Uniform Statewide Payroll System (USPS) subsystem.

Reference List

- American Institute of Certified Public Accountants. *Audits of Colleges and Universities*. New York, NY, 1994.
- _____. *Audits of State and Local Governmental Units*. New York, NY, 1994.
- Federal Accounting Standards Advisory Board. "Statement of Recommended Accounting Standards #4." *Managerial Cost Accounting Concepts and Standards for the Federal Government*. June 1995.
- Fitzgerald, Jerry. *Fundamentals of Systems Analysis*. 1981.
- Institute of Electrical and Electronics Engineers, Inc. *IEEE Standard for Developing Software Life Cycle Processes*. New York, NY, 1992.
- Institute of Internal Auditors Research Foundation. *Systems Auditability and Control*. Altamonte Springs, FL, 1991.
- Rakos, John. *Software Project Management*. Prentice-Hall, 1990.
- State of Texas. Comptroller of Public Accounts. *Final Report to Uniform Statewide Accounting System Committee*. December 1988.
- _____. Comptroller of Public Accounts. *Uniform Statewide Accounting System Revised Functional Specifications*. July 1990.
- _____. Comptroller of Public Accounts. *Statement of Condition [USAS]*. September 1992.
- _____. Comptroller of Public Accounts. *Information Resource Strategic Plan Fiscal Years 1995-99*. January 1995.
- _____. Comptroller of Public Accounts. *Information Resource Biennial Operating Plan FY93-FY97*. 1995.
- _____. State Auditor's Office. *Reconciling State Financial Reports*. SAO Report No. 95-029. November 1994.
- _____. State Auditor's Office. *Contributions of the State Auditor's Office to the Uniform Statewide Accounting Project*. SAO Report No. 95-046. January 1995.
- Watne, Donald, and Peter Turney. *Auditing EDP Systems*. Prentice-Hall, 1984.

Results of Audit Work at User Agencies

We reviewed USAS processes at 11 agencies and universities as part of this audit to assess the adequacy and accuracy of USAS as a statewide accounting system. We gained an understanding of agency internal controls affecting USAS and tested key controls, including security access and the reconciliation processes. Additionally, we gathered information to assess the adequacy and accuracy of USAS at the statewide level. Fieldwork at these agencies was conducted from March through July 1995.

We are pleased to report that 2 of the 11 agencies, the Public Utility Commission and the Texas Department of Commerce, had no findings in the areas that we audited. Findings for the remaining nine agencies and universities are detailed in this appendix.

Adjutant General's Department

Internal Control Issue

Limit USAS Access to the Uniform Statewide Accounting System

The Adjutant General's Department had eight employees with excessive access to the Uniform Statewide Accounting System (USAS). Access should be limited to only those functions necessary for employees' job duties.

Twelve employees of the Accounting Division had access to initiate, enter, correct, and approve the same transaction. Eight of the 12 were considered to have excessive access which increased the risk of unauthorized transactions.

Recommendation:

We recommend that the Department limit USAS access to only those functions necessary for employees' job duties. The Department agreed to change the instances of excessive access we identified.

Management's Response:

We concur with your audit finding and will make the necessary changes to the security of the eight employees mentioned in your audit letter. Effective September 1, 1995, the release flag on the eight employees will be turned off and the result will be that only four employees of the Adjutant General's Department (Agency 401) will have security to release batches of transactions into USAS (Uniform Statewide Accounting System). This security change will allow the eight employees to enter but not approve or release transactions into USAS. After a proper review by the other four employees, transactions will be approved and released into USAS. In addition, we have made changes to the eight employees user class security within USAS that further restricts their security access. We plan to review security access to USAS semiannually.

Court of Criminal Appeals

Internal Control Issues

Reconcile the AFR and USAS to Improve the Accuracy of Data

The Court of Criminal Appeals (Court) did not perform a reconciliation to verify that information maintained in the Uniform Statewide Accounting System (USAS) agrees with the Court's 1994 Annual Financial Report (AFR). As a result, the information in USAS may not be reliable for decision-making purposes.

The Comptroller's 1994 AFR Technical Guide states that agencies should reconcile balances in USAS, and adjustments to USAS should be made accordingly. However, 1994 was the first year USAS was operational, and most agencies encountered difficulties with posting data to USAS.

Recommendation:

The Court should work with the Comptroller's Office to reconcile its annual financial report to USAS. The Court should further ensure that future annual financial reports are reconciled timely and any differences are adjusted accordingly.

Management Response:

We agree with your finding. We reconcile on a monthly basis. However, we were not aware that balances in USAS were different from our Annual Financial Report. The differences were brought to our attention during our audit. We did not receive any assistance from the Comptroller's office on how to resolve the differences. We will work with the Comptroller's Office to make sure we reconcile our Annual Financial Report to USAS and all differences are adjusted in a timely manner.

Strengthen Segregation of Duties Between USAS Users

The Court should adequately segregate duties between the two USAS users. Adequate segregation of duties reduces the risk of errors and irregularities. Agencies with few employees have a more difficult time separating duties; however, it is critical that no one person has the ability to initiate and execute any one transaction from start to finish. We noted the following areas where controls could be improved:

- One employee is responsible for processing revenue transactions. The same employee receives, records, maintains custody of, and prepares the deposit slip for third-party cash reimbursements. This employee is also responsible for entry and release of these transactions into USAS.
- Both users are responsible for reviewing their own data entry of USAS transactions.

Recommendation:

We recommend that the Court segregate duties to ensure that no one person has the ability to initiate and execute any one transaction from start to finish. A principal feature of an adequate system of internal control is the allocation of responsibilities.

Management's Response:

Because we are a small agency, it is sometimes difficult separating duties for USAS purposes. We only have two employees trained and authorized to access USAS. However, we have taken steps to segregate duties to ensure that no one person has the ability to initiate and execute any one transaction from start to finish. The only revenue received by the Court is from the sale of opinions. Currently this money is received, recorded and maintained by a deputy clerk in the Clerk's office until time for deposit. The money is then given to another person to prepare the deposit slip and enter into USAS. We now have three people involved in the process. One person to receive, record and maintain the money, one person to prepare the deposit slip and another person to enter into USAS.

The practice of third party reimbursement (telephone call reimbursement) has been discontinued. Employees are forbidden from making long distance calls from state phones.

Monitor Security Access to the Uniform Statewide Accounting System

The Court did not conduct periodic reviews of USAS access which resulted in two employees having inappropriate access. Inappropriate access to USAS increases the risk of unauthorized transactions and accounting errors.

USAS access should be restricted to only those functions necessary for employees' job duties. Additionally, USAS access should be deleted from the system when employees terminate, transfer, or change job duties. Access codes for two users who no longer work with USAS had not been completely deleted from the Comptroller's mainframe at the time of our review.

Recommendation:

We recommend that the Court establish a process to review USAS security access at least semi-annually and update security access when employees terminate, transfer, or change job duties.

Management's Response:

We agree with your finding. We have reviewed USAS security access and have removed individuals who do not need daily access to USAS. Currently only two employees have access to USAS.

Improve Controls over Expenditure Approvals and Cancellations

The Court should ensure that expenditure approval is properly documented and that source documents are canceled after entry into USAS.

- A procedure exists to approve expenditure transactions prior to entry into USAS. However, we were unable to verify that proper approval was provided for 2 of 6 (33 percent) disbursement transactions tested. Documented approval of expenditures prior to data entry into USAS reduces the risk of processing unauthorized transactions.
- Source documentation for transactions is not canceled after data entry into USAS. As a result, there is an increased risk of making duplicate payments to vendors.

Recommendation:

We recommend that the Court document approval for transactions prior to data entry into USAS. We further recommend that the Court implement procedures to ensure that source documentation is canceled for all transactions after data entry into USAS.

Management's Response:

We agree with your finding. We have implemented procedures to make sure expenditure approval is properly documented and source documents are canceled after entry into USAS. This is accomplished by using a rubber stamp that is dated and signed by the person approving payment and dated and signed by the person canceling the document after entry into USAS.

Employees Retirement System

Internal Control Issues

Monitor Security Access to the Uniform Statewide Accounting System

The Employees Retirement System (System) did not conduct periodic reviews of USAS access which resulted in several employees having inappropriate access. Inappropriate access increases the risk of unauthorized transactions and accounting errors.

Access should be restricted to only those functions necessary for employees' job duties. Three employees had the ability to perform tasks within USAS that were not required for their job duties. Access for two terminated employees was not deleted for at least a month. In addition, six employees had an inappropriate capability to add, change, or delete USAS profile information.

Recommendation:

The System immediately made changes to restrict access further as they were pointed out during our review. We recommend that the System establish a process to periodically review USAS security access at least semi-annually and update security access when employees terminate, transfer, or change job duties.

Management's Response:

We agree with the above recommendation. A process of semi-annual review of USAS security access will be implemented by October 31, 1995 and will be updated when employees terminate. The semi-annual review will be used to assure any needed changes due to transfer or job change description.

Complete Development of Automated USAS Interface

The Employees Retirement System (System) should complete the development and implementation of the automated USAS interface. The System is classified as a USAS reporting agency, which means that accounting information is maintained in an internal accounting system and also reported to USAS. Most reporting agencies use an automated interface for reporting data to USAS.

Currently, staff manually enter information into the System's internal accounting system as well as into USAS. One employee currently spends at least three hours per day entering data into USAS. The USAS interface would eliminate the need for most of the manual data entry into USAS, save some review time, and reduce the risk of data entry errors.

Recommendation:

We recommend that the System complete development and implementation of the automated USAS interface.

Management's Response:

We implemented an Accounts Payable interface in July 1995 and the implementation of a General Ledger interface November 1995 which eliminates the manual USAS entry of all but a small number of documents which are capable of interface to USAS.

Department of Information Resources

Internal Control Issues

Comply with Established Time Limits for Clearing Reconciling Items

The Department of Information Resources (Department) had not cleared reconciling items between the Uniform Statewide Accounting System (USAS) and the Department's Financial Accounting System (DFAS) within established time limits. Since September 1994, many outstanding reconciling items had not been cleared.

The Comptroller of Public Accounts' *Notice to State Agencies* dated July 8, 1994, requires agencies to clear reconciliations no later than the following month's end or soon after completion of the reconciliation.

As a result of the delays in clearing reconciling items, the Department is not in compliance with the Comptroller's established requirement. Also, the data within USAS and DFAS will not agree completely until outstanding reconciling items are cleared.

Recommendation:

We recommend that the Department comply with the Comptroller's requirement for clearing reconciling items in a timely manner.

Management's Response:

We agree that reconciling transactions between USAS and our internal accounting system is important. Because of the increased accounting workload, DIR hired a temporary accountant devoted exclusively to this project to develop procedures to accomplish the reconciliation. After two and a half months, there were over 100 pages of items that could not be matched without additional research. This is due to the fact that USAS posts by strategy and the internal system posts by organization code. There is often a multiple to one relationship between the two systems, making manual matching difficult and time-consuming.

A macro has now been developed to automatically consolidate "like" transactions to match them systematically rather than manually. The process has been in place several months and has been a major step in accomplishing the reconciliation, but it is still being refined to make it more effective in matching the thousands of monthly transactions.

As evidenced by our ongoing efforts in this area, DIR agrees with the importance of reconciling the two systems, but it competes with the tremendous growth in our cooperative contract activities and the increased work created by USAS.

Monitor Security Access to the Uniform Statewide Accounting System

The Department of Information Resources did not conduct periodic reviews of USAS access which resulted in four Department employees having inappropriate access. Inappropriate access increases the risk of unauthorized transactions.

Access should be restricted to only those functions necessary for employees' job duties. One former employee still had Department access. One employee had unnecessary data entry capability. One employee had unnecessary accounting inquiry access. One employee had excessive accounting inquiry capability, but did not need this capability for job duties.

Recommendation:

The Department corrected the instances of inappropriate access as we identified the need for those changes. We recommend that the Department establish a process to review USAS security access at least semi-annually and update security access when employees terminate, transfer, or change job duties.

Management's Response:

Security in USAS was originally established based on documentation received from the Comptroller's Office and with the guidance of our USAS agency assist team person.

The former employee that "still had department access" had very restricted inquiry privileges. The employee had never used the system and, therefore, did not have an active password. It is our understanding that employees that do not use the system at least once every 30 days automatically lose their access. Accordingly, the employee's access should have terminated several months prior to his departure from the agency. The employee's access has now been deleted. All other employees that terminated during the period of time covered by the audit were deleted from the agency's USAS security.

The employee described as having "unnecessary data entry capability" was set up in that manner based on our interpretation of the written material provided by the Comptroller regarding security access. The employee's security access was changed on May 3, 1995, as recommended by the auditor.

The two employees that had "unnecessary" and "excessive" accounting inquiry access are support personnel to our accounting staff and users of the DIR accounting system. They had requested access to assist in the performance of that role. After discussing their needs with USAS and State Auditor personnel who suggested other ways of addressing the issue, the access has now been deleted.

DIR will periodically review USAS security access and update access as authorized employees terminate, transfer, or change job duties.

Texas Lottery Commission

Internal Control Issues

Monitor Security Access to the Uniform Statewide Accounting System

The Texas Lottery Commission (Commission) did not conduct periodic reviews of USAS access which resulted in nine employees having inappropriate access. Inappropriate access increases the risk of unauthorized transactions.

Access should be restricted to only those functions necessary for employees' job duties. Seven employees had the ability to perform tasks within USAS that was not required for their job duties. Access for two terminated employees was not deleted for at least a month.

Recommendation:

We recommend that the Commission establish a process to periodically review USAS security access at least semi-annually and update security access when employees terminate, transfer, or change job duties.

Management's Response:

We concur. The necessary changes to access have been made and we will include the review of USAS access in our regular system's access review performed by the Systems Administration Section.

Perform Timely Reconciliations of Internal Accounting System to USAS

The Commission has not performed monthly reconciliations of their internal accounting system to USAS during fiscal year 1995. As a result, the Commission cannot be assured that the internal accounting system and USAS are in agreement. Unless USAS information is kept current, the information may not be reliable for decision-making purposes.

The Comptroller of Public Accounts' *Notice to State Agencies* dated July 8, 1994, requires agencies to clear reconciliations no later than the following month's end or soon after completion of the reconciliation.

Recommendation:

We recommend that the Commission perform a year-to-date reconciliation for the months of the current fiscal year which have already passed and continue their progress toward establishing procedures to ensure that future monthly reconciliations will be performed in a timely manner.

Management's Response:

We concur and will work towards performing these reconciliations timely.

Texas Racing Commission

Internal Control Issues

Monitor Security Access to the Uniform Statewide Accounting System

The Texas Racing Commission (Commission) has granted three employees an unnecessary level of access to the Uniform Statewide Accounting System (USAS). Unnecessary access to USAS increases the risk for unauthorized transaction processing and accounting errors.

The level of access granted to an employee should correspond to the employee's job duties and responsibilities. Three employees have access to USAS which is not necessary. One employee has access which allows interagency payments. Two other employees have the ability to view, enter, and change financial data in the USAS profiles.

Recommendation:

The Texas Racing Commission should revise the level of USAS access to reflect each employee's current job duties and level of responsibility. Additionally, the Commission should continue to review USAS security access periodically and update security access when employees terminate, transfer, or change job duties.

Management's Response:

The level of USAS access granted to accounting department employees is currently under review. Changes will be made to ensure that employees' job duties and responsibilities correspond to their level of access. The agency will continue to review USAS security access as changes are made in job duties and as turnover occurs.

Improve Controls over USAS Transactions

The Texas Racing Commission does not have adequate controls over data input into USAS. Adequate controls would provide reasonable assurance that data is not lost, duplicated, or added before and during the data entry process. We noted the following areas in which controls could be improved:

- Control totals are not used to ensure that transactions are entered correctly.
- Deposit vouchers are not marked as canceled after entry into USAS.

Recommendation:

The Commission should strengthen its internal controls over data entered into USAS. Control totals should be used to ensure that data is entered correctly. Accounting personnel should sign, date, and cancel source documents to indicate review and entry into USAS.

Management's Response:

Changes have been made to the procedures for entering documents into USAS. In order to ensure that data is entered correctly, the agency has requested that accounting personnel use control totals when entering data in the system.

Documents are all signed and dated at the time of entry and review, with the exception of deposit vouchers. Because there is no place on the deposit voucher form to sign and date, this procedure was not used in the past. New procedures are in place for all deposit vouchers to be initialed and dated at the time of review.

Structural Pest Control Board¹⁰

Internal Control Issue

Limit Access to Agency Automated Systems

Four Board employees have been granted access priorities to the Uniform Statewide Accounting System (USAS) that are unnecessary to perform their job duties. The access granted allows them to make deposits into the accounts of other agencies. Also, three of these employees can alter another agency's accounting records through interagency payments.

Automation access controls ensure that the agency's critical information is safeguarded from accidental or intentional modification or destruction.

Recommendation:

We recommend that management reevaluate USAS priority access granted to employees and limit that access according to each employee's job duties.

Management's Response:

¹⁰This finding for the Structural Pest Control Board was reported in conjunction with the results of the State Auditor's Office 1995 Small Agency Management Control Audit.

The following is a brief description of USAS user access with the Structural Pest Control Board. The following employees have batch release capability, i.e., the ability to release payment, deposit, and refund batches: June Moncrief, Deputy Administrator; Jennifer Ku, Accountant II; Denis Bell, Administrative Technician. Gail Peterson, Accounting Clerk III is the only other employee with USAS access, but does not have batch release capability.

Ms. Moncrief is frequently out of the office and out-of-town on agency business, therefore she cannot be the sole employee with release capability. She is also the USAS security coordinator for this agency.

Ms. Ku handles all accounting duties, as well as, the payroll officer. Ms. Ku reviews all entries made by Ms. Peterson, and once verified releases the payment and deposit batches. Ms. Moncrief verifies the payroll functions performed by Ms. Ku on a monthly basis.

Mr. Bell serves as an accounting and payroll backup for Ms. Ku. He also serves as backup in reviewing and releasing all payment/deposit batches, as well as, generating all agency license refunds. Ms. Moncrief reviews the backup and refund functions performed by Mr. Bell.

Texas Tech University

Internal Control Issues

Monitor Security Access to the Uniform Statewide Accounting System

The University did not conduct periodic reviews of USAS access which resulted in 14 employees having inappropriate access. Inappropriate access increases the risk of unauthorized transactions.

The University should restrict access to only those functions necessary for employees' job duties. One employee had an inappropriate capability to add, change, or delete USAS information. Thirteen employees had the ability to perform tasks within USAS that are not presently required for their job duties. Many of these users were set up with access to help with the entering of year-end transactions; however, this access was not used.

Recommendation:

The University immediately corrected the instances of inappropriate access as we identified the need for those changes. We recommend that the University establish a process to review USAS security access at least semi-annually and update security access when employees change job duties.

Management's Response:

We concur with the recommendation that we review USAS security access on a semi-annual basis and this process will be implemented. On occasion, as a result of reporting requirements, additional staff may be added on a temporary basis to assist in processing transactions. These individuals will be deleted upon completing the project.

Texas Department of Transportation

Internal Control Issues

Comply with Established Time Limits for Clearing and Posting Reconciling Items

The Texas Department of Transportation (Department) has not cleared all reconciling items between the Uniform Statewide Accounting System (USAS) and the Department's Financial Information Management System (FIMS) within established time limits. As of February 1995 a total of 755 outstanding reconciling items amounting to \$324 million had not been cleared within established time limits. Of the 755 outstanding reconciling items, 191 are over one-year old, and seven are over two-years old.

The Comptroller of Public Accounts' *Notice to State Agencies* dated July 8, 1994, requires agencies to clear reconciliations no later than the following month's end or soon after completion of the reconciliation.

As a result of the delays in clearing reconciling items, the Department is not in compliance with the Comptroller's established requirement. Also, the data within USAS and FIMS will not agree until outstanding reconciling items are cleared. Clearing the reconciling items would increase efficiency of subsequent reconciliations and financial statement preparation.

Recommendation:

We recommend that the Department comply with the Comptroller's requirement for clearing reconciling items in a timely manner.

Management's Response:

The number of outstanding items older than one month has been greatly reduced since the audit, and we are working to eliminate them completely. The Comptroller's interagency transfer voucher policy, which has been changed, is the major reason for the number of outstanding items. The policy allowed other agencies to post transactions in USAS against our agency without our approval, and without sufficient information to reconcile the transactions to our agency's records.

While not all adjustments for reconciling items have been posted in as timely a manner as desired, these unposted adjustments do not affect our financial operations or management decisions. Because we have current and detailed reconciliations, we are able to produce accurate financial statements at any time.

The department has completed current and detailed reconciliations before and since USAS implementation. We have been contacted by numerous other agencies for assistance in completing their reconciliations, some of whom were referred to us by the State Auditor's Office.

We also assisted the Comptroller's office in preparing their Notice to State Agencies, documenting the procedures for completing automated reconciliations.

Monitor Security Access to the Uniform Statewide Accounting System

The Department did not conduct periodic reviews of USAS access which resulted in six Department employees having inappropriate access. Inappropriate access increases the risk of unauthorized transactions.

Access should be restricted to only those functions necessary for employees' job duties. Three employees had the ability to perform tasks within USAS that are not required for their job duties. Access was not deleted for one employee who had transferred to another division and no longer needed access to USAS. Two employees had an inappropriate capability to add, change, or delete USAS profile information.

Recommendation:

The Department immediately corrected the instances of inappropriate access as we identified the need for those changes. We recommend that the Department establish a process to review USAS security access at least semi-annually and update security access when employees terminate, transfer, or change job duties.

Management's Response:

The Department has contacted the Comptroller's office and requested quarterly reports detailing the USAS security of all TxDOT employees. Without such a report, it would be impossible to verify that no TxDOT employees have inappropriate access to USAS. Security access will be reviewed on a semi-annual basis and security access will be updated when an employee terminates, transfers, or changes job duties.