



An Audit Report on

# **Financial Processes at the Juvenile Justice Department**

July 2016  
Report No. 16-032



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## Overall Conclusion

While the Juvenile Justice Department (Department) should strengthen its policies and procedures for financial processes, it generally had controls in fiscal year 2015 to ensure that it administered financial transactions in accordance with applicable statutes, rules, and its existing policies and procedures. For example:

- **Juvenile Probation Grants.** The Department had adequate controls over juvenile probation grants and appropriately supported and approved all juvenile probation grant payments tested. The \$155 million in grants the Department provided to juvenile probation departments in fiscal year 2015 represented approximately 45 percent of the Department's \$345 million in total expenditures for that year. In addition, the Department appropriately approved juvenile probation departments' budgets, and it monitored juvenile probation departments' expenditures by reviewing external audit reports that juvenile probation departments submitted.
- **Travel Expenditures.** The Department had adequate controls over travel expenditures and complied with most of the travel requirements and Department travel policies and procedures tested.

However, the Department should improve certain controls over expenditures, financial reporting, and access to its key financial information systems. Specifically:

- **Expenditures.**<sup>1</sup> All expenditures that auditors tested were allowable, and the Department coded them properly in its accounting system (the Centralized Accounting and Payroll/Personnel System, or CAPPs). However, the Department should consistently maintain documentation of its approvals of those expenditures. The Department should also improve controls over

### Background Information

The Legislature created the Juvenile Justice Department (Department), effective December 1, 2011, by combining the Juvenile Probation Commission and the Texas Youth Commission. The Department's mission statement is "transforming young lives and creating safe communities."

The Department's fiscal year 2015 budget was \$319,304,334 for five goals: community juvenile justice, state services and facilities, office of the independent ombudsman, juvenile justice system, and indirect administration.

The Department was allocated 2,881.5 full-time equivalent positions for fiscal year 2015.

Sources: The Department's Web site and the General Appropriations Act (83rd Legislature).

<sup>1</sup> The expenditures tested in that category did not include payroll, travel, and juvenile probation grant expenditures.

procurement cards and fuel cards and its reviews of expenditures that employees make using those cards.

- **Financial Reporting.** All year-end accounting adjustments the Department made during its annual financial reporting process were appropriate. However, the Department's fiscal year 2015 annual financial report contained errors in the balances presented for capital assets and long-term liabilities. Specifically, capital assets was understated by \$63,766, and the beginning balance of employees' compensable leave (a long-term liability) was understated by \$3,875,978. In addition, the Department did not meet certain Office of the Comptroller of Public Accounts reporting due dates for annual financial report certifications.<sup>2</sup> Specifically, the Department submitted 5 (28 percent) of 18 required annual financial report certifications from 10 to 38 days late, and it did not formally document its review and approval of 16 of those certifications. The Department also should (1) maintain documentation to support its required year-end reconciliation of balances in CAPPs and in the Uniform Statewide Accounting System (USAS) and (2) perform a year-end reconciliation of its capital asset balances in CAPPs, the State Property Accounting system, and USAS.
- **Access to Its Key Financial Information Systems.** The Department should improve how it grants access to CAPPs and USAS. In addition, the Department did not properly restrict high-level access rights to CAPPs, 20 former employees still had access to CAPPs, and 18 current employees could process payments in CAPPs without secondary review and approval.

Auditors communicated additional issues related to information security to the Department in writing. Auditors also communicated other, less significant issues to the Department in writing.

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<sup>2</sup> Examples of annual financial report certifications include the Capital Asset Note Submission System certification; the General Revenue reconciliation certification; and the Uniform Statewide Accounting System and interagency activity certification.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating <sup>a</sup>
1	The Department Should Strengthen Its Policies and Procedures for Financial Processes	High
2-A	The Department Had Adequate Controls Over Juvenile Probation Grants	Low
2-B	The Department Had Adequate Controls Over Travel Expenditures	Low
3	The Department Should Improve Controls Over Expenditures	Medium
4	The Department Should Improve Controls Over Financial Reporting	Medium
5	The Department Should Improve Controls Over Access to its Key Financial Information Systems	Medium

<sup>a</sup> A subchapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A subchapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A subchapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

A subchapter is rated Low if the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

## ***Summary of Management's Response***

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The Department agreed with the recommendations in this report.

## ***Audit Objective and Scope***

The objective of this audit was to determine whether the Department has processes and related controls to help ensure that it administers financial transactions in accordance with applicable statutes, rules, and Department policies and procedures.

**The scope of this audit covered the Department's activities related to juvenile probation grants, travel expenditures, expenditures, financial reporting, and the related information systems for fiscal year 2015 (September 1, 2014, through August 31, 2015).**

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# Detailed Results

Chapter 1

## The Department Should Strengthen Its Policies and Procedures for Financial Processes

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Chapter 1  
Rating:  
High <sup>3</sup>

The Juvenile Justice Department (Department) had documented policies and procedures that addressed some of its financial processes. However, the policies and procedures were out of date, not sufficient, and/or did not exist for several of the areas audited. An absence of documented policies and procedures caused many of the issues discussed in the other chapters of this report.

The Department should update certain policies and procedures.

Financial policies and procedures. **The Department did not have up-to-date policies and procedures for many of the financial processes that auditors reviewed.** For example, sections of its *General Administrative Procedures Manual* had not been updated since 1996 and 1998. The Texas Youth Commission (one of the Department's predecessor agencies) originally created that manual, and that manual still referred to the Texas Youth Commission in many places. In addition, the Department's *General Accounting Policies and Procedures Manual* and *Travel Procedures Manual* were out of date and did not reflect current processes.

Procurement policies. **The Department had not updated its *Procurement Policy Manual* since 2011, even though its information technology systems related to procurement had changed since 2011.** Specifically, at the beginning of fiscal year 2015, the Department transitioned its accounting system and most of its financial processes from a legacy mainframe system to the Centralized Accounting and Payroll/Personnel System (CAPPS). While the Department redesigned some controls to integrate fiscal year 2015 processes into CAPPS, it did not document the changes to those controls in its policies. That contributed to the errors in expenditures that auditors identified during testing (see Chapter 3 for additional details).

Information technology policies. **The Department last updated its information technology policies in June 2012, and those policies did not reflect the requirements in Title 1, Texas Administrative Code, Chapter 202, which were implemented in March 2015.** The requirements in the Texas Administrative

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<sup>3</sup> Chapter 1 is rated as High because it presents risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concerns and reduce risks to the audited entity.

Code reflect industry best practices, specifically National Institute of Standards and Technology (NIST) security standards.

Not having up-to-date policies and procedures increases the risk for errors in processes, weaknesses in controls, and fraud.

The Department should document certain policies and procedures.

Policies and procedures for juvenile probation grants. While auditors did not identify any issues during testing of juvenile probation grants (see Chapter 2), the Department did not have documented policies and procedures for its administration of juvenile probation grants. The Department asserted that one of its predecessor agencies, the Juvenile Probation Commission, had policies related to juvenile probation grants, but subsequent changes to processes and systems following the creation of the Department in 2011 had rendered those policies inadequate. During the scope of the audit, the Department asserted that only one staff member performed work related to juvenile probation grants. Therefore, without documented policies and procedures, the Department's ability to administer those grants effectively could be negatively affected if that staff member departed.

Procedures for procurement cards and fuel cards. The Department asserted that it had at least 9 procurement cards and 351 fuel cards during fiscal year 2015. To monitor the expenditures on those cards, the Department performs reconciliations of bank statements with its expenditure logs, either at the individual card level (for procurement cards) or at the facility level (for fuel cards). However, the Department did not have documented procedures for performing those reconciliations. In addition, during testing, auditors identified issues related to identifying and researching unusual financial transactions (see Chapter 3 for additional details). Documenting its procedures for procurement cards and fuel cards, including procedures for performing reconciliations and procedures for researching unusual transactions, would strengthen the Department's controls over those cards.

Procedures for preparing annual financial reports. The Department did not have documented procedures for preparing its annual financial report, reconciling General Revenue with the Uniform Statewide Accounting System (USAS), and completing the *Agency Year-End USAS Adjustments and Annual Financial Report Checklist*.

The absence of documented procedures, combined with the departure of its lead accountant in 2015, led to the Department contracting with a former state employee to prepare its fiscal year 2015 annual financial report. That was necessary because the Department no longer had staff with the experience necessary to prepare that report. Auditors identified issues

regarding the Department's fiscal year 2015 annual financial reporting process (see Chapter 4 for additional details).

## Recommendations

The Department should:

- Update its *General Administrative Procedures Manual, General Accounting Policies and Procedures Manual, Travel Procedures Manual, and Procurement Policy Manual* to reflect the Department's agency name and current systems, processes, and requirements.
- Update its information technology policies to reflect requirements in Title 1, Texas Administrative Code, Chapter 202, and NIST security standards.
- Document its policies and procedures for the administration of juvenile probation grants.
- Document its procedures for procurement cards and fuel cards, including procedures for performing reconciliations and researching unusual transactions.
- Document its procedures for preparing its annual financial report, reconciling General Revenue with USAS, and completing the *Agency Year-End USAS Adjustments and Annual Financial Report Checklist*.

## Management's Response

*The Texas Juvenile Justice Department agrees with the recommendations and has begun creating, updating, and/or documenting the identified policies and procedures as recommended. Implementation dates and responsible parties are shown below.*

- *General Administrative Procedures Manual. Responsible party: Chief Financial Officer; Implementation date: January 31, 2017*
- *General Accounting Policies and Procedures Manual. Responsible party: Accounting Manager - Claims and Services; Implementation date: January 31, 2017*
- *Travel Procedures Manual. Responsible party: Accounting Manager - Claims and Services; Implementation date: December 31, 2016*
- *Procurement Policy Manual. Responsible party: Director of Business Operations and Contracts; Implementation date: September 30, 2016*



- *Information technology policies. Responsible party: Chief Information Officer; Implementation date: February 28, 2017*
- *Juvenile probation grants policies and procedures. Responsible party: Chief Financial Officer; Implementation date: December 31, 2016*
- *Procurement cards procedures. Responsible party: Director of Business Operations and Contracts; Implementation date: September 30, 2016*
- *Annual financial report procedures. Responsible party: Director of Fiscal Affairs and Budget; Implementation date: September 30, 2016*

## The Department Had Adequate Controls Over Juvenile Probation Grants and Travel Expenditures

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The Department had adequate controls over juvenile probation grants. It appropriately supported and approved all juvenile probation grant payments tested, approved juvenile probation departments' budgets, and monitored juvenile probation departments' expenditures by reviewing external audit reports that juvenile probation departments submitted.

In addition, the Department had adequate controls over travel expenditures and complied with most of the travel requirements and Department travel policies and procedures that auditors tested.

### Chapter 2-A

### The Department Had Adequate Controls Over Juvenile Probation Grants

Chapter 2-A  
Rating:  
Low<sup>4</sup>

During fiscal year 2015, the Department provided \$155 million in juvenile probation grants to 166 juvenile probation departments across the state (see text box for additional details). That amount represented approximately 45 percent of the Department's \$345 million in total expenditures for fiscal year 2015.

The Department had adequate controls over significant processes for its administration of juvenile probation grants in fiscal year 2015. Specifically:

- The Department ensured that its grant payments to all 29 juvenile probation departments tested were properly supported and approved.
- All 29 juvenile probation departments tested submitted budgets to the Department, and the Department reviewed all of those budgets to ensure that juvenile probation departments' expenditures were allowable.
- The Department had documentation showing its review of all 22 external audit reports that juvenile probation departments had submitted at the time of this audit.

#### Juvenile Probation Department Funding

The Department distributes funds for probation and community services to juvenile probation departments across the state. The juvenile probation departments use those funds for services such as:

- Basic probation.
- Community services.
- Pre- and post-adjudication services.
- Commitment diversion.
- Mental health services.

Juvenile probation departments also receive Title IV-E (child welfare) funds from the Department of Family and Protective Services and funds for educational purposes from the Texas Education Agency.

Sources: The Department.

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<sup>4</sup> Chapter 2-A is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

- The Department had active contracts with all 166 juvenile probation departments to which it made grant payments in fiscal year 2015. The Department enters into a biennial contract with each juvenile probation department to set contract terms. The Department also monitors the juvenile probation departments' compliance with Department requirements (for example, requirements for the juvenile probation departments to submit required budgets and external audit reports). In addition, the Department allocates funds to the juvenile probation departments through amendments to those contracts.

However, as discussed in Chapter 1, the Department should document its policies and procedures for the administration of juvenile probation grants.

### Management's Response

*The Texas Juvenile Justice Department appreciates the SAO's thorough review of the Department's juvenile probation grants administration processes. As noted in Chapter 1, the Department will document its policies and procedures in this area with an implementation date of December 31, 2016.*

Chapter 2-B

The Department Had Adequate Controls Over Travel Expenditures

Chapter 2-B  
Rating:  
Low <sup>5</sup>

The Department had adequate controls over significant financial processes related to travel expenditures, and it complied with most of the travel requirements and Department travel policies and procedures that auditors tested.

However, the Department should improve its controls over the review and approval of travel expenditures. Twenty-eight (93 percent) of the 30 travel expenditures tested complied with applicable requirements. The Department exceeded the state travel regulations' approved lodging reimbursement rate for the remaining 2 travel expenditures, which resulted in a total overpayment of \$161 for lodging expenses.

In addition, as discussed in Chapter 1, the Department should update its *Travel Procedures Manual*.

<sup>5</sup> Chapter 2-B is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

## Recommendation

The Department should reimburse travel expenditures only at allowable rates in accordance with state travel regulations.

## **Management's Response**

*The Texas Juvenile Justice Department agrees with the recommendation. Management will provide additional training to staff on allowable reimbursement rates and establish an annual refresher training calendar for travel requirements. Responsible party: Accounting Manager - Claims and Services; Implementation date: August 31, 2016*

Chapter 3  
Rating:  
Medium <sup>6</sup>

The Department had adequate controls over some aspects of its expenditures (see text box for additional information on the expenditures tested). For example, it ensured that all 90 expenditures tested were allowable and coded correctly in CAPPs. In addition, the Department had approved contracts in place for all five expenditures tested that were related to contracts. Also, for 89 (99 percent) of the 90 expenditures tested, the invoice and payment amount matched. For 77 (95 percent) of 81 applicable expenditures tested, the payment amount was less than or equal to the purchase order amount.

However, the Department did not always have adequate controls over other aspects of those expenditures. Specifically:

- The Department did not approve 9 (10 percent) of 90 expenditures tested in compliance with its approval process. Specifically, the Department did not maintain documentation of all of the approvals that its procedures require it to maintain. Those 9 expenditures totaled \$4,844.
- The Department did not ensure that 11 (12 percent) of 90 expenditures tested received proper approval prior to being processed. Those 11 expenditures totaled \$5,077.
- The Department did not have adequate supporting documentation (such as requisitions, purchase orders, and/or invoices) for 7 (8 percent) of 90 expenditures tested. Those 7 expenditures totaled \$10,213.
- Four of the 90 expenditures tested were subject to competitive bidding requirements. For 2 (50 percent) of those 4 expenditures, the Department did not have documentation showing that it obtained the required bids. Those 2 expenditures totaled \$7,989.

### Expenditures Tested

Auditors selected 3 random samples of 30 expenditures each. Those samples were stratified by whether they had a valid purchase order number in the requisition number field in USAS, whether they had a non-purchase order number in that field, or whether that field was blank. Those 3 samples together constituted the 90 expenditures tested.

The 90 expenditures tested did not include payroll transactions. They also did not include travel expenditures and juvenile probation grant expenditures, both of which were tested separately and are discussed in Chapter 2.

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<sup>6</sup> Chapter 3 is rated as Medium because it presents risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concerns and reduce risks to a more desirable level.

The Department's processes related to expenditures changed as a result of its transition to CAPPs at the beginning of fiscal year 2015. Auditors tested the processes that were in place in fiscal year 2015 following the Department's transition to CAPPs. As discussed in Chapter 1, several Department manuals related to the expenditures tested were not up to date and did not reflect Department practices and key information technology systems, which contributed to the issues discussed above.

#### Unusual Transactions

For the purposes of this audit, auditors considered an unusual transaction identified in procurement card reconciliations and fuel card reconciliations to be either of the following:

- A transaction that appeared to be out of the ordinary (for example, the purchase of an item not normally obtained in the Department's usual course of business, such as large-screen televisions and video gaming equipment).
- A transaction for which there was no clear relationship between the dollar amount of the transaction on the procurement card statement or fuel card statement and the Department's supporting documentation (such as its expenditure log, a receipt, or an invoice).

In addition, while the Department performs monthly reconciliations of bank statements with its expenditure logs, it should strengthen its controls for reviewing unusual transactions (see text box for additional information on unusual transactions). For 2 (7 percent) of 27 reconciliations tested, the Department did not follow up on unusual transactions identified in those reconciliations; that was due to the weaknesses in its policies and procedures discussed in Chapter 1. One of those reconciliations included an unresolved difference of \$1,800 between supporting receipts and the amount paid on a fuel card statement.

Thirty-three Department staff members who were designated as having direct purchasing- or contracting-related roles had signed conflict of interest statements covering October 2014 through August 2015. However, the Department did not have signed conflict of interest statements covering September 2014 through February 2015 for three members of executive management who were responsible for approving contracts during that time. Specifically, two of those individuals—the chief financial officer and the chief of staff—signed conflict of interest statements in late February 2015. The executive director signed a conflict of interest statement in March 2015. Based on information it provided, the Department entered into contracts from September 2014 through February 2015 (the time period during which the Department did not have evidence of signed conflict of interest statements for those three members of executive management). According to the Department's approval process, one or more of those individuals would have signed the contracts into which the Department entered during that time period.

## Recommendations

### The Department should:

- Consistently obtain required approvals of all expenditures.
- Approve all expenditures prior to processing expenditures.
- Consistently maintain adequate supporting documentation for all expenditures.
- Develop and maintain documentation related to competitive bidding requirements.
- Follow up on unusual transactions it identifies in its monthly reconciliations of bank statements with expenditure logs.
- Ensure that members of executive management who are responsible for approving contracts sign conflict of interest statements.

### Management's Response

*The Texas Juvenile Justice Department (TJJD) agrees with the recommendations. The agency has fully implemented the Centralized Accounting & Payroll/Personnel System (CAPPS) which will ensure all required approvals are obtained for future expenditures processed in the system.*

*TJJD will update its Procurement Policy Manual to clarify approval and documentation requirements for expenditures or requisitions not processed in CAPPS (student trust funds and travel reimbursements) and provide additional training to staff in these areas as needed. Responsible party: Director of Business Operations and Contracts; Implementation dates: September 30, 2016 (manual update) and December 31, 2016 (training)*

*The Department will provide additional training to staff on competitive bidding requirements to ensure statutory compliance and proper documentation. Responsible party: Director of Business Operations and Contracts; Implementation date: August 31, 2016*

*Updates to TJJD's Procurement Policy Manual will be included to clarify procedures in the event of an unusual transaction (one that could reasonably be considered to be outside of typical business activities) and management will provide additional training to staff as needed. Responsible party: Director of Business Operations and Contracts; Implementation dates: September 30, 2016 (manual update) and December 31, 2016 (training)*

*All executive management has submitted conflict of interest statements. These statements will be renewed each August for the coming fiscal year or as needed for new or promoted employees. Responsible party: Director of Business Operations and Contracts; Implementation date: August 31, 2016*



## The Department Should Improve Controls Over Financial Reporting

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Chapter 4  
Rating:  
Medium <sup>7</sup>

Certain Department controls over financial reporting were operating effectively for fiscal year 2015. For example, the Department:

- Generally had processes for presenting information in its annual financial report. Except for two balances discussed below, the balances presented in the annual financial report for fiscal year 2015 were accurate. However, as discussed in Chapter 1, the Department did not have documented procedures for preparing its annual financial report.
- Appropriately prepared all fiscal year-end journal entries that were necessary during the year-end accounting closing process for fiscal year 2015.
- Performed a required reconciliation of General Revenue and USAS and submitted that reconciliation to the Office of the Comptroller of Public Accounts in a timely manner.
- Submitted all required annual financial reporting certifications to the Office of the Comptroller of Public Accounts (but, as discussed below, it did not submit some certifications in a timely manner).

However, the Department should improve some controls over its financial reporting process. Auditors identified the following weaknesses in financial reporting:

- The Department's fiscal year 2015 annual financial report contained errors in the balances presented for capital assets and long-term liabilities. Specifically, capital assets were understated by \$63,766. In addition, the beginning balance of employees' compensable leave (a long-term liability) was understated by \$3,875,978 because the Department carried forward an incorrect beginning balance (however, the ending balance for employees' compensable leave was stated correctly).
- The Department did not have a documented review and approval process for preparing its annual financial report, reconciling General Revenue, and completing the *Agency Year-End USAS Adjustments and Annual Financial Report Checklist*.

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<sup>7</sup> Chapter 4 is rated as Medium because it presents risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concerns and reduce risks to a more desirable level.

- The Department did not comply with the Office of the Comptroller of Public Accounts' due dates for 5 (28 percent) of 18 required annual financial report certifications for fiscal year 2015. It submitted those 5 certifications between 10 and 38 days late. In addition, it did not document its review and approval of 16 (89 percent) of those 18 certifications.
- Although the Department certified that the fiscal year 2015 balances in CAPPs and USAS accurately reflected the Department's financial position at the end of fiscal year 2015, the Department did not perform a year-end reconciliation of those balances in CAPPs and USAS, as required by the Office of the Comptroller of Public Accounts.
- The Department made changes to and restated Note 2 (regarding capital assets) in its fiscal year 2015 annual financial report. However, auditors could not verify the accuracy of the accumulated depreciation amounts in that note disclosure because the Department did not have documentation to support its accumulated depreciation balances. The Department was unable to provide that documentation because it (1) did not have controls to track the value of its assets properly and to update asset information in the State Property Accounting (SPA) system and (2) did not perform a year-end reconciliation of capital asset balances in CAPPs, the SPA system, and USAS.

#### Recommendations

##### The Department should:

- Document its review and approval process for preparing its annual financial report, reconciling General Revenue, and completing the *Agency Year-End USAS Adjustments and Annual Financial Report Checklist*.
- Consistently comply with the Office of the Comptroller of Public Accounts' financial reporting due dates, and document its review and approval of compliance with those due dates.
- Develop and maintain documentation of its required year-end reconciliation of balances in CAPPs and USAS.
- Develop and maintain documentation related to restatements of balances in its annual financial reports, and carry forward correct balances to subsequent annual financial reports.

- Develop and implement controls to track the value of its assets properly and to update asset information in the SPA system.
- Perform a year-end reconciliation of capital asset balances in CAPPs, the SPA system, and USAS to ensure that it presents those balances accurately in its annual financial report.

### **Management's Response**

*The Texas Juvenile Justice Department (TJJD) agrees with the recommendations and has begun creating an Annual Financial Report procedures manual to ensure consistent practice, proper documentation, and timely submission as recommended. TJJD is also working with the Office of the Comptroller of Public Accounts to complete an automated interface to update asset information in SPA and will ensure accurate year-end reconciliation and reporting of capital asset balances. Responsible party: Director of Fiscal Affairs and Budget; Implementation date: November 30, 2016*

## The Department Should Improve Controls Over Access to Key Financial Information Systems

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Chapter 5  
Rating:  
Medium<sup>8</sup>

The Department should improve controls over access to CAPPs. As of January 15, 2016:

- The Department did not properly restrict the use of correction access in CAPPs. A total of 283 staff had some form of correction access, and 132 of them did not require that access, according to the Department. When a user makes changes in CAPPs using correction access, CAPPs does not retain a history of the effective dates of those changes. Retaining an effective audit trail for financial transactions helps to detect unauthorized changes.
- Twenty former employees still had active user accounts for CAPPs.
- Eighteen current employees had the ability to process payments in CAPPs without secondary review and approval.

The issues discussed above increase the risk of fraud and unauthorized transactions. A lack of adequate controls over granting and monitoring access to CAPPs caused those issues. Specifically, the form that the Department used to grant access to CAPPs did not contain sufficient information to determine (1) which of 743 available roles it should assign to a user and (2) whether the access granted was appropriate.

Title 1, Texas Administrative Code, Chapter 202, requires agencies to manage information security risks, such as the risks associated with access to information systems. However, the Department did not always appropriately control access to USAS. For example, auditors identified one employee who had USAS access rights to both enter and release transactions, which represented a weakness in the separation of duties and increases the risk of fraud and unauthorized transactions. Auditors determined that the employee did not both enter and release the same transaction in fiscal year 2015.

As discussed in Chapter 1, the Department also had not updated its information technology policies to reflect the requirements in Title 1, Texas Administrative Code, Chapter 202, and NIST security standards.

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<sup>8</sup> Chapter 5 is rated as Medium because it present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

Auditors communicated additional issues related to information security to the Department in writing.

#### Recommendations

The Department should:

- Improve access to CAPPs by restricting the use of high-level access privileges such as correction access, limiting access to current employees, and implementing proper separation of duties.
- Update the form it uses to grant access to CAPPs to include sufficient information to identify roles required for CAPPs access.
- Implement proper separation of duties in USAS to prohibit a single individual from both entering and releasing transactions.

#### Management's Response

*The Texas Juvenile Justice Department (TJJD) agrees with the recommendations and has begun working with the Office of the Comptroller of Public Accounts to clarify available access privileges in CAPPs and the roles necessary for different types of users. TJJD will update its access form once this process is complete and will begin annually auditing user privileges. Responsible party: Director of Business Operations and Contracts; Implementation date: December 31, 2016*

*Removal of entry access for the employee with entry and release rights in USAS has been requested. Responsible party: Director of Fiscal Affairs and Budget; Implementation date: June 30, 2016*

# Appendices

## Appendix 1

### *Objective, Scope, and Methodology*

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#### Objective

The objective of this audit was to determine whether the Juvenile Justice Department (Department) has processes and related controls to help ensure that it administers financial transactions in accordance with applicable statutes, rules, and Department policies and procedures.

#### Scope

The scope of this audit covered the Department's activities related to juvenile probation grants, travel expenditures, expenditures<sup>9</sup>, financial reporting, and the related information systems for fiscal year 2015 (September 1, 2014, through August 31, 2015).

#### Methodology

The audit methodology included collecting information and documentation; interviewing Department staff regarding financial and operational processes; testing documentation related to juvenile probation grants, travel expenditures, expenditures, and financial reporting; and analyzing and evaluating the results of audit tests.

Auditors selected a nonstatistical, random sample of travel expenditures. That sample was designed to be representative of the population and results may be extrapolated to the population, but the accuracy of the extrapolation cannot be measured.

Auditors selected nonstatistical, stratified random samples of expenditures. Those samples were not designed to be representative of the population and should not be extrapolated to the population.

Auditors used professional judgment to select a nonstatistical, stratified sample of juvenile probation departments based on the percent difference between grant payments the Department made to juvenile probation department during the audit scope and the amount of funds the Department originally allocated to juvenile probation departments. That sample was not designed to be representative of the population and should not be extrapolated to the population.

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<sup>9</sup> The expenditures tested in that category did not include payroll, travel, and juvenile probation grant expenditures.

Auditors used professional judgment to select a nonstatistical sample of procurement card reconciliations and fuel card reconciliations that the Department performed. That sample was not designed to be representative of the population and should not be extrapolated to the population.

Auditors used expenditure information in the Uniform Statewide Accounting System (USAS) and relied on previous State Auditor's Office audit work on USAS to determine that data in USAS was sufficiently reliable for the purposes of this audit.

Auditors performed procedures to verify the reasonableness of information provided from the Department's Cisco reporting tool and lists of procurement cards and fuel cards assigned to the Department. Auditors concluded that information was sufficiently reliable for the purposes of this audit.

Information collected and reviewed included the following:

- Department policies, procedures, manuals, and guides.
- Department expenditure data from USAS.
- Invoices and supporting documentation for Department expenditures.
- Department travel vouchers and supporting documentation.
- Juvenile probation departments' (1) grant contracts, (2) budgets and supporting documentation showing the Department's review, and (3) external audit reports and supporting documentation showing the Department's review.
- Department user access lists for USAS and the Centralized Accounting and Payroll/Personnel System (CAPPS).
- The Department's information technology resource list.
- Supporting documentation for the Department's fiscal year 2015 annual financial report.

Procedures and tests conducted included the following:

- Interviewed Department staff to identify the Department's financial and operational processes, including financial and administrative internal controls.
- Tested a sample of juvenile probation departments' expenditures to verify whether (1) the Department approved juvenile probation

departments' allocated funding, (2) the juvenile probation departments submitted required budgets and external audit reports, and (3) the Department reviewed the budgets and external audit reports.

- Tested a sample of Department travel expenditures for required approvals, appropriate documentation, and compliance with state travel requirements and Department policies and procedures.
- Tested a sample of Department expenditures for required approvals, required supporting documentation, properly documented exceptions, proper bidding documentation, and other controls related to purchasing.
- Tested a sample of Department procurement card reconciliations and fuel card reconciliations to verify whether the Department performed reconciliations, documented approvals, and followed up on unusual transactions.
- Reviewed conflict of interest statements for Department executive management and staff.
- Reviewed the Department's procurement of a contractor to prepare the Department's annual financial report.
- Reviewed the Department's fiscal year 2015 annual financial report to determine whether the Department complied with the Office of the Comptroller of Public Accounts' reporting requirements.
- Reviewed the Department's restatement of Note 2 (regarding capital assets) to its fiscal year 2015 annual financial report to determine whether that note disclosure was properly supported.
- Reviewed the Department's year-end journal entries associated with its fiscal year 2015 annual financial report.
- Reviewed access to key financial information systems to determine whether the Department limited access to employees who required access.

Criteria used included the following:

- Texas Government Code, Chapters 660 and 2155.
- Title 34, Texas Administrative Code, Chapter 20.
- Title 1, Texas Administrative Code, Chapter 202.
- Title 37, Texas Administrative Code, Chapter 385.



- Texas Family Code, Chapter 54.
- Texas Human Resources Code, Chapters 202, 203, 221, 223, 242, 246, and 261.
- The General Appropriations Act (83rd Legislature).
- *State of Texas Procurement Manual*, 2012 version.
- Office of the Comptroller of Public Accounts' eXpendit purchasing procedures.
- Office of the Comptroller of Public Accounts' *State Property Accounting (SPA) Process User's Guide*.
- Office of the Comptroller of Public Accounts' *Reporting Requirements for Fiscal 2015 Annual Financial Reports of State Agencies and Universities*.
- Office of the Comptroller of Public Accounts' travel policies and procedures.
- Department of Information Resources' *Security Control Standards Catalog*, version 1.3.
- Department policies, procedures, manuals, and guides.

#### Project Information

Audit fieldwork was conducted from December 2015 through May 2016. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Shahpar Michelle Hernandez, CPA, M/SBT, CISA (Project Manager)
- Thomas Andrew Mahoney, CGAP (Assistant Project Manager)
- Michael Karnes, MBA
- Michael Yokie, CISA
- Damian Zorrilla, CPA, CIA, CFE, CGAP

- Brianna C. Pierce, CPA (Quality Control Manager)
- Ann E. Karnes, CPA (Quality Control Reviewer)
- Cesar Saldivar, CGAP (Audit Manager)

## Issue Rating Classifications and Descriptions

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Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; violation of state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Copies of this report have been distributed to the following:

### Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair  
The Honorable Joe Straus III, Speaker of the House, Joint Chair  
The Honorable Jane Nelson, Senate Finance Committee  
The Honorable Robert Nichols, Member, Texas Senate  
The Honorable John Otto, House Appropriations Committee  
The Honorable Dennis Bonnen, House Ways and Means Committee

### Office of the Governor

The Honorable Greg Abbott, Governor

### Juvenile Justice Department

#### Members of the Juvenile Justice Board

Mr. Scott W. Fisher, Chair  
The Honorable John Brieden, III  
The Honorable Carol Bush  
Ms. Becky Gregory  
Ms. Jane Anderson King  
The Honorable David "Scott" Matthew  
Ms. Mary Lou Mendoza  
Dr. Rene Olvera  
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Mr. Riley Shaw  
The Honorable Jimmy Smith  
Mr. Calvin Stephens  
Mr. David Reilly, Executive Director  
Ms. Chelsea Buchholtz, Chief of Staff



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