



**TEXAS REAL ESTATE COMMISSION
INTERNAL AUDIT SERVICES**

**Audit # 17-002
Financial System Integration Analysis**

June 26, 2017

As Prepared by
McConnell & Jones LLP



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I. INTRODUCTION

McConnell & Jones LLP (MJ), serving as the outsourced internal audit function (Internal Audit) for the Texas Real Estate Commission (TREC) provided consulting and advisory services to evaluate the agency's capability of improving the current reporting and workflow processes as well as the agency's future needs. This engagement focused on the integration of information system to support revenues reporting processes.

The consulting and advisory services were conducted in conformance with the International Standards for the Professional Practice of Internal Auditing (IIA Standards) and with the Texas Internal Auditing Act (The Act). The IIA standards allow internal auditors to provide consulting and advisory services when the engagement has the potential to improve management of risk, add value, improve the organization's operations, provided that internal audit has no conflict of interest and internal audit personnel have no management responsibilities for the area in scope. When providing advisory or consulting services, internal auditors are required to establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. Additionally, the established scope must be sufficient to achieve the objectives of the engagement and must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

The Act defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Sec. 2102.003 of the Act defines consulting services as: "advisory and related client service activities, the nature and scope of which are agreed upon with the client and are intended to add value and improve an organization's operations. Consulting services include counsel, advice, facilitation, and training."

Internal Audit performed the financial system integration assessment as an advisory engagement to add value to TREC's financial processes through providing analysis of the current situation and business needs.

Overview

Our annual risk assessment identified staff concerns on some of the functionality with TREC's licensing management system (Versa). We also identified that TREC's revenues and expenditures are not recorded in one centralized financial system. TREC's Staff & Support Services (SSS) division uses MIP Fund Accounting System (MIP) and the State's Uniform Statewide Accounting System (USAS) to record expenditures as they are incurred. Revenues are compiled using multiple manual spreadsheets and are entered into USAS at the end of the year. The Accounting team is implementing a new tool to incorporate revenues into MIP in an effort to address this issue.

The risks associated with the current system's manual processes resulted in our recommendation to perform an analysis of finance system integration possibilities as part of the FY2017 Internal Audit Plan.

TREC's finance and accounting functions reside in the Staff and Support Services Division (SSS). Responsibility for information systems resides with TREC's Information & Technology Services division (ITS). Versa is TREC's license management system and records all activities related to the Agency's core operations.

The director of Staff & Support Services division began initiatives to automate many of its finance and accounting processes through the integrating VERSA and MIP for revenues. Most of this is accomplished through an interface from VERSA to MIP to reconcile daily revenues. We reviewed what has been completed to-date with the revenue recording and reporting processes.

Scope and Procedures

The scope of this advisory engagement was to determine what current data, applications and processes can be used to enhance TREC’s current revenue reporting and workflow process along with exploring software applications that can complete the processes in an integrated environment. The following activities were performed:

- Conducted interviews with Accounting and ITS teams.
- Performed walk-through of key revenue processes with the respective business process owners.
- Reviewed documentation, including spreadsheets used in TREC’s revenue processes.
- Reviewed information system documentation.
- Reviewed ITS’ strategic plan.
- Reviewed ITS’ project management policies and documents.

II. SUMMARY OF FINDINGS

We analyzed TREC’s risks related to the financial system integration for revenue recording, reconciling and reporting processes. This analysis also included reviewing TREC’s Information & Technology Services (ITS) strategic plan, project management plan and project implementation documents. The table below provides a summary of our analysis findings. Detailed discussion of these findings is in the following section of this report.

** Navigation Note: On the word document, hold the control key + click on the numbers with the curly bracket { } to navigate to the detailed finding discussion.*

Function	Detailed Finding # and Link	Condition	Risk Level	Management’s Responses
Revenue Processes	{1}	The SSS Division does not have a strategic plan to govern its long-term information system objectives and decision-making.	Medium	In Process
	{2}	TREC’s process of preparing financial information for the “U-docs” workbook involves significant manual input and lacks reconciliation tools.	Low	Comptroller System is beyond our ability to control.
	{3}	Annual financial reporting process policies and procedures specific to the agency are not established.	Low	In Process

Function	Detailed Finding # and Link	Condition	Risk Level	Management's Responses
	{4}	Deposit worksheet preparation involves significant manual input and possible duplication of effort.	Medium	Possible process improvement
	{5}	The monthly TTSTC reconciliation involves significant manual input from paper files	Medium	Possible process improvement
	{6}	TREC's Finance Division assumes responsibilities to dispute chargeback transactions instead of treating the transactions as a license application with no valid payment received.	Low	Possible process Improvement
	{7}	SSS Division does not have centralized tools to manage daily reconciliation exceptions: refunding, chargeback, and crowbars.	Medium	Possible process improvement
	{8}	All documentation for deposits, disbursements, refunds, and chargeback adjustments, are currently in physical paper format.	Medium	Process improvement
IT Application Governance	{1}	Documentation reviewed for Information Technology projects did not conform to the department's written policies	Medium	In Process
	{2}	ITS policies are not centralized in one location. There are over 20 different documents for IT policies. Furthermore, many polices are outdated. There is no identification of which a policy is still applicable.	Medium	Implemented
	{3}	Versa was adopted with limited functionality to support accounting functions. TREC's SSS Division does not have a full understanding of the VERSA system capacities.	Medium	Process Improvements Ongoing
Versa-to-MIP Integration	{2}	Functionality of Versa-to-MIP interface is limited to daily reconciliation and only addresses one step of the revenue process and the entire process should be considered.	Medium	Process Improvements Ongoing

III. CONCLUSIONS

Information systems are the foundation to effective and efficient operations of any organization. As such, it is crucial for an organization's information technology department to have a strategic plan in place that is linked to the organization's strategic plan and includes the needs of all departments and functions within the organization. Once the information technology strategic plan is solidified each goal or strategy

is then linked to the organization’s strategic plan for funding purposes. This ensures focus and provides a basis for information technology project prioritization.

Components of the information technology strategic plan then become integrated into each department’s strategic plan so that they can adequately plan their information technology needs and resources. It is through the strategic plans that organizations implement comprehensive and cohesive information systems.

Through this analysis project, we noted that while the ITS Division does have a strategic plan, it is not linked to TREC’s strategic plan and each department’s needs. We also noted that strategic objectives for the revenue reconciliation integration processes were not identified and that the system’s business objectives were not identified and communicated to the ITS Division.

The current Information Technology applications only help automate a small portion of the revenue process. As a result, the business process owners created manual procedures and work-arounds to accomplish their tasks. This results in significant manual data input and processing related to revenue reconciliation procedures.

IV. REVENUE REPORTING PROCESS OVERVIEW

TREC receives revenues from licensing fees, education fees, special assessments and penalties. As an agency in the State of Texas, the TREC is required to report all revenues in the State’s Uniform Statewide Accounting System (USAS). TREC is also required to submit an annual financial report to Texas Comptroller of Public Accounts (CPA). **Figure 1** provides an overview of TREC’s revenue processes. This is followed by a detailed discussion of each process.

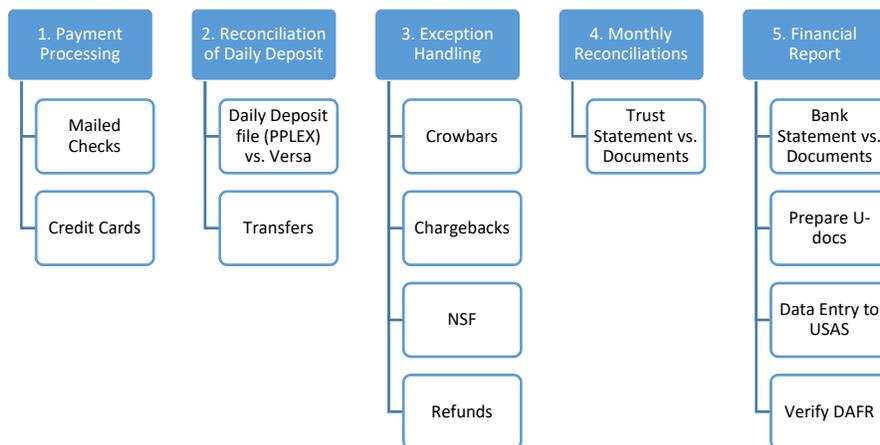


FIGURE 1: Summary of TREC’s revenue reporting processes

TREC’s current revenue reporting process comprises the following five major steps:

Payment Processing: The Texas Real Estate Commission accepts two methods of payment: checks by mail and credit card payments via the Agency’s Versa online portal. Online payments are processed through the state’s Texas Online Payment system, and are deposited directly to the Agency’s account at the Texas Treasury Safekeeping Trust Company (TTSTC). Checks received by mail are processed according to established internal procedures. While payments are generally non-refundable, there

are circumstances where refund processing is justified and necessary. Examples of this include overpayments, rejected license applications and duplicate payment. TREC currently maintains all refund information on a separate spreadsheet.

Daily Deposit Reconciliation: TREC receives a text file (PPLEXT) from Texas Online showing all credit card payments received each day. The budget analyst utilizes an internally developed integration tool, "TREC financials" (discussed in section V) to decode the PPLEXT file each business day and physically scans through Versa's transaction database to reconcile the total daily credit card deposit. The tool also identifies unassigned deposits on Versa. The results are PDF files identifying any exceptions. This reconciliation process is started at the end of the month and reconciles each business day in order to summarize the months' transactions. Once it is completed, the analysis for the transfer process is started.

By default, all checks and credit card payments are received in Trust account #3054. The payments serve different purposes, such as licensing fees, penalties, etc. The budget analyst makes monthly transfers as the amounts are reconciled and the payment purposes are identified.

Exception Handling: Reconciliations between PPLEX and Versa typically results in some exceptions as follows:

- **Crowbars:** Credit card payments that are processed successfully through the Versa online portal but are not captured in the Versa Regulation's Database. A TREC accountant investigates these payments in order to either apply the payment to an existing applicant's license or refund to the payer. All crowbars exceptions instances are documented on a spreadsheet.
- **Chargeback:** Payments withdrawn unilaterally by customers. A TREC accountant investigates these payments in order to either confirm that the withdrawal request is valid or the Agency is entitled to the money. All chargeback instances are documented on an individual spreadsheet.
- **Other adjustments:** invalid checks due to either a bad bank account or Non-Sufficient Fund (NSF). TREC's cashier accountant prepares a letter to follow-up with applicant, requesting the check amount as well as a Non-Sufficient Fund charge. When the replacement check is received, the Cashier accountant adjusts the amounts on Versa.

Monthly Reconciliations: TREC receives a TTSTC bank statement at the end of each month. This statement includes a summary of activity and a detailed transaction listing. A TREC accountant gathers all deposit and disbursement documentation from TREC's paper files and enters the information into an Excel reconciliation worksheet. The result is manually compared against the TTSTC bank statement.

Annual Financial Report Process: The annual report is created through a series of tasks. SSS division staff first reconciles the August reconciliations and add all the monthly reconciliations to summarize the whole year's activity. This information and other required details, such as inventory, fixed asset and employee benefits are then entered into a "U-docs" spreadsheet and are subsequently entered into USAS via the Bluezone Mainframe interface. After all data entry, USAS exports a "DAFR" text file, which is a report summarizing the financial information entered. This report is manually compared against the U-docs file to verify accuracy and completeness.

V. REVENUE PROCESS ANALYSIS RESULTS

This section of the report provides a discussion of our analysis and conclusions.

SSS Division's Strategic Planning

The Staff & Support Services division did not establish a strategic plan to identify the key objectives, roles and responsibilities for revenue reporting process. Each business process owner performs manual processes utilizing independent spreadsheets to fulfill their routine tasks. These processes involve a significant amount of manual input, including some duplication of effort, and do not facilitate quality review and effective delegation (see details in the finding below). In addition, the SSS division's strategic needs were not communicated to the ITS department. Therefore, SSS division's functions are not well supported by ITS.

Recommendation:

We recommend that the director of SSS establishes a strategic plan identifying key processes within the Agency. We also recommend SSS and ITS divisions collaborate to identify possible solutions and a long term plan to address these needs. {1}

Management Response:

A strategic plan or other type of long-range plan for the Staff and Support Services division is underway in several iterations, so creating a formal document will be the next step. Many of the processes which are currently in place have been in place since before the agency switched to Versa or became SDSI. Our intention is to automate more procedures and to reduce or eliminate paper within three years. The processes currently in place have been reviewed and are considered adequate in regards to state compliance, accuracy and meeting generally accepted accounting procedure. That said, we are ready to move to the next level of simplifying, consolidating, and automating to create efficiencies.

Reconciliation Tools

TREC's process of preparing financial information for the "U-docs" workbook involves significant manual input and lacks reconciliation tools. Currently financial information is manually entered into the "U-docs" workbook from the monthly reconciliation sheets. After the accountant enters all entries into USAS, the USAS system can print out a DAFR showing the each account's ending balances. The DAFR is then manually verified against the "U-docs" by two staff members. The "U-docs" workbook contains over 20 worksheets, and each worksheet only shows the entries to be posted into USAS. The "U-docs" do not indicate where the information comes from, or whether a transaction has been entered into USAS. While the manual reviews are in place, this process poses a risk of error or incomplete reporting. Clerical errors could happen when the "U-docs" workbook is prepared or when data is entered into USAS system. This process also requires additional SSS division administrative time and resources (see Fig. 2).

Recommendation:

We recommend that the “U-docs” is improved to incorporate the reconciliation, indicating the source information and the corresponding amount from the DAFR. This would help facilitate efficient and accurate reviews. In addition, the transaction data file on Versa could accommodate customized accounting codes. We suggest that the SSS division discuss with ITS about the possibility of setting the accounting codes on Versa to help classify the transactions in Versa and/or MIP consistently with the account codes in “U-docs”. {2}

Management Response:

To facilitate efficient and accurate review, staff will review processes to ensure that we are automating as much as we are able. A majority of the U-docs are not revenue related, so setting up accounting codes in VERSA will not provide much value. We will, however, consider ways to improve this process.

Annual Financial Reporting Process

Annual financial reporting process policies and procedures specific to TREC are not established. The current process relies on the Texas Comptroller of Public Accounts’ (CPA) online guidance for Self-Reported, Semi-Dependent entities. The internal documentation of the SSS division is limited to a printed notebook of the CPA’s guidance. However, not all of items on the guidance are applicable to TREC, and the documentation does not identify whether an item is applicable to the Agency, and what procedures are performed. When an item on the compliance checklist is completed, it is checked-off and signed-off. However, there was no description of the procedures performed. The assignment of responsibilities is currently performed via email, division staff meetings, and verbal conversations. This documentation process makes it difficult to effectively assign responsibility and facilitate a review process.

Figure 2 provides a summary of TREC’s annual financial reporting process.

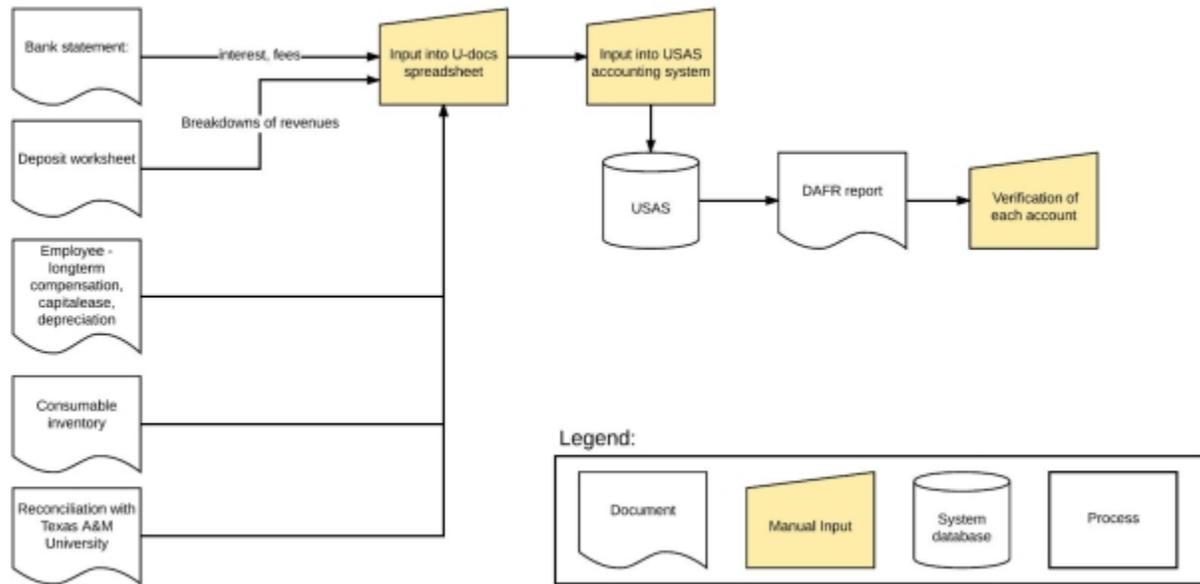


FIGURE 2: Information Flow for the Annual Financial Reporting Process

Recommendation:

We recommend that the annual reporting process be documented in a procedural document, which should include the goals, the applicable rules and regulations, staff roles and responsibilities. {3}

Management Response:

The Comptroller’s AFR requirements are prescriptive for using their online entry system. We currently document all of our working papers including any questions on specific notes that may not be self-explanatory (e.g., GASB 80). We will explore an efficient way of documenting the agency’s process of following the Comptroller’s requirements.

Deposit Worksheet

The deposit worksheet preparation involves manual input and possible duplication of effort. Currently the budget analyst prepares comprehensive revenue reconciliation each day and then reviews the same documentation when the monthly reconciliation is performed. There are two separate processes to perform monthly reconciliations, one using the Deposit Worksheet and one using the TTSTC monthly reconciliation worksheet.

The process begins with the budget analyst running the “TREC financial” tool, a web interface internally developed by TREC. The tool prepares daily reconciliation between the Versa system and PPLEXT daily transaction files. The “TREC financial system” prints out the PDF files showing a summary of deposit amounts, segregated by revenue code. These amounts are manually entered into the “deposit worksheet”

spreadsheet under the relevant date column and transaction code (See Fig. 3). The spreadsheet contains two worksheets for each month, one for credit card payments and one for check deposits. Each worksheet contains approximately 1,000 entries. Additional adjustments are placed into the spreadsheet as an Excel “review comment”. The exceptions, including refunds, crowbar and chargeback are investigated on the NIC payment system (Texas Online) and on Versa. The spreadsheet also contains a worksheet that summarizes the information from each month of the fiscal year. At the end of the fiscal year, the summary of monthly activity is used for budgeting processes and annual financial reporting.

The daily reconciliation documentation is performed at a very specific detail level that requires a significant amount of data entry. Given the amount of data entry involved, there is a high risk of error and lack of capability for review process.

The investigation of the exceptions process may also be duplicating processes performed by other accountants within the division. Specifically, the crowbars, refunds and chargeback are monitored and resolved by other accountants on a daily basis. At the end of the month, when the budget analyst identifies these exceptions from the “TREC financials” report, she is not aware of whether the exceptions have been resolved. Therefore, the budget analyst’s process of investigating the exceptions is likely a duplication of effort.

Figure 3 provides an overview of the daily revenue reconciliation process.

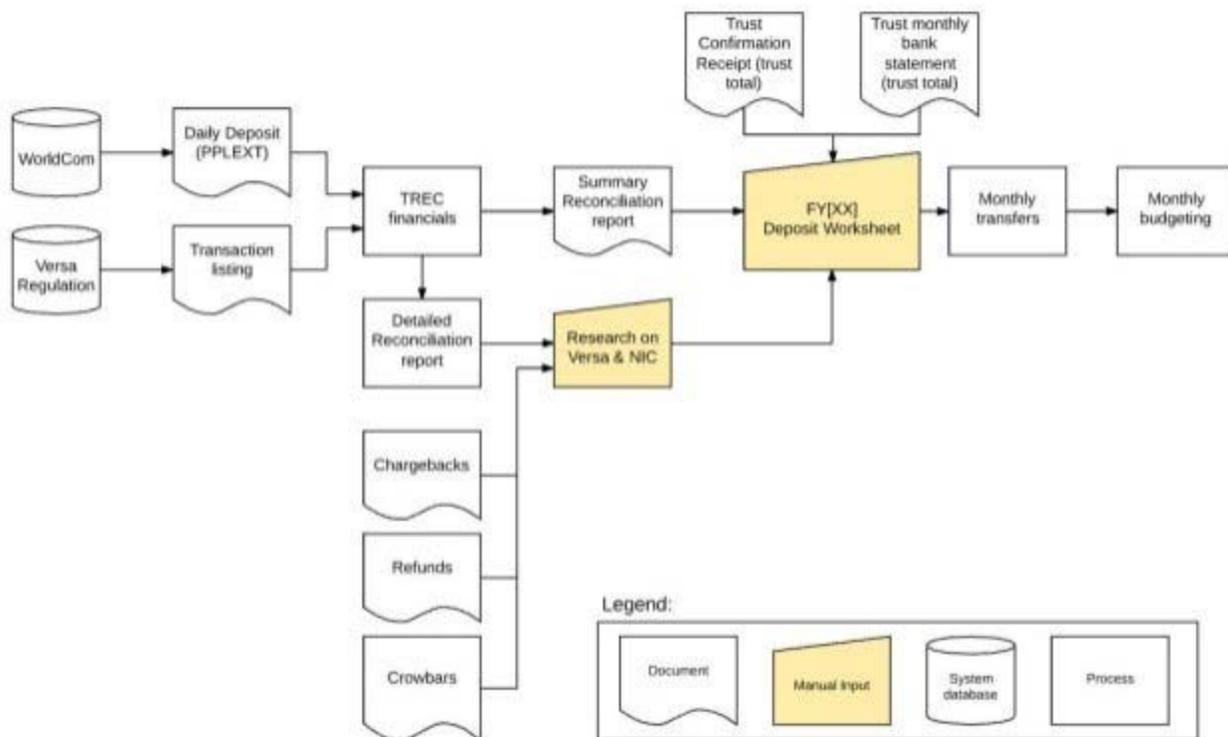


FIGURE 3: Summary information flow for the daily deposit reconciliation

Recommendation:

We recommend that the Agency improve the Versa-to-MIP system capabilities to exclude the exceptions that have already been resolved from the reconciliation report. In addition, the results of investigating the exceptions should be shared among the SSS Division staff.

The director of SSS Division should also review the two revenue reconciliation processes in relation to the strategic business objectives and consider consolidating into one process. The director of SSS Division should also consider the need to document the daily reconciliation at the current level of detail. {4}

Management Response:

The MIP-to-Versa interface is intended to get us to a place where we can use one accounting system for reconciliation and budget preparation. It has taken a few years to get the tool in place and we plan to run parallel systems for the first year (FY18) to provide assurances that the system is accurate. Once we are confident that the revenue and deposit information is accurately transmitted, we will continue to refine the process.

Monthly TTSTC Reconciliation Process

The monthly TTSTC reconciliation involves significant manual input from paper files. The spreadsheet includes 12 worksheets, each for one month, and four summary worksheets that are heavily linked to the 12 monthly worksheets. In order to prepare each monthly reconciliation worksheet, the accountant enters information from the paper documentation into the worksheet. Each worksheet contains over 100 manual inputs. If one data entry error is made in this worksheet, it can cause significant challenges to review each individual manual input. In addition, if an erroneous error occurred that breaks the calculation in the file, it would be difficult to trace and repair the spreadsheet. We noted the process owner had challenges in reconciling a \$5,100 difference as the result of the complexity and manual inputs of the reconciliation workbook.

Figure 4 provides a summary of the TTSTC reconciliation process. This procedure incurs significant amount of time and high risk of human errors.

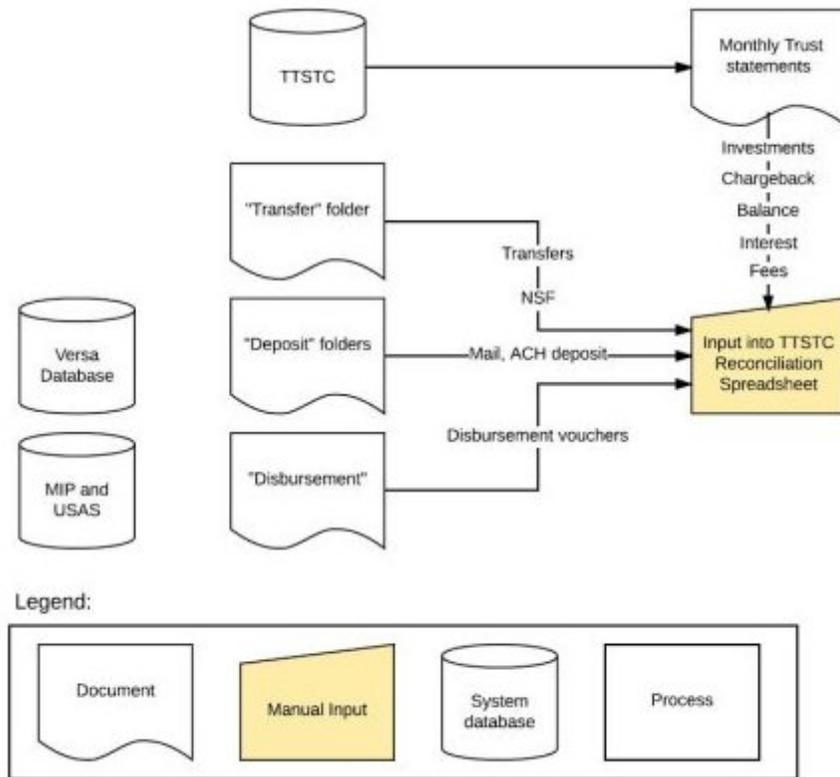


FIGURE 4: TTSTC Monthly Reconciliation Process

Recommendation:

We recommend that the Agency improve the monthly reconciliation process to reduce the use of paper supporting documents. TREC’s existing tools can provide the information in a more efficient manner. For example, disbursement information could be extracted from MIP or the USAS system, and deposit information could be extracted from the Versa Database. SSS staff should consult with the ITS department to obtain the necessary training to utilize these databases. In addition, we noted that the monthly reconciliation for deposit information is already performed by the budget analyst using a different process. We recommend that the Agency review the two processes and incorporate them into one, thereby avoiding duplication of effort. {5}

Management Response:

Even though this current reconciliation process has been determined to be adequate for accuracy and compliance, our goal is to more fully automate processes in all areas of accounting. Currently, the budget analyst only reconciles the amounts deposited into the Trust and does not reconcile other transactions such as transfers, disbursements, or Investment transactions that are reconciled on the monthly reconciliation. While we will seek to remove redundancies, we also want to clarify that the duplication is not 100 percent.

Chargeback Transaction Responsibility

The SSS Division assumes responsibilities to dispute chargeback transactions. This dispute process results in additional administrative time required to process the chargebacks. We noted that whenever there is a credit card transaction dispute, the SSS Division staff proceeds with conducting research in the Versa system, then discusses the transaction with customers or submits counter claims with WorldPay bank. Sometimes SSS staff contacts the licensee directly to resolve the chargeback. Communications with WorldPay regarding chargeback transactions are currently performed through regular mail. There were approximately 200 chargeback transactions during Fiscal Year 2016.

We noted that when a chargeback transaction was identified, no update was made in Versa system to reflect the payment adjustment. While the transaction is being investigated, the Versa system does not acknowledge that the payments are under disputes. This could create a risk that the ELS departments processing a license application as if the payment was valid.

Figure 6 provides a summary of the chargeback process.

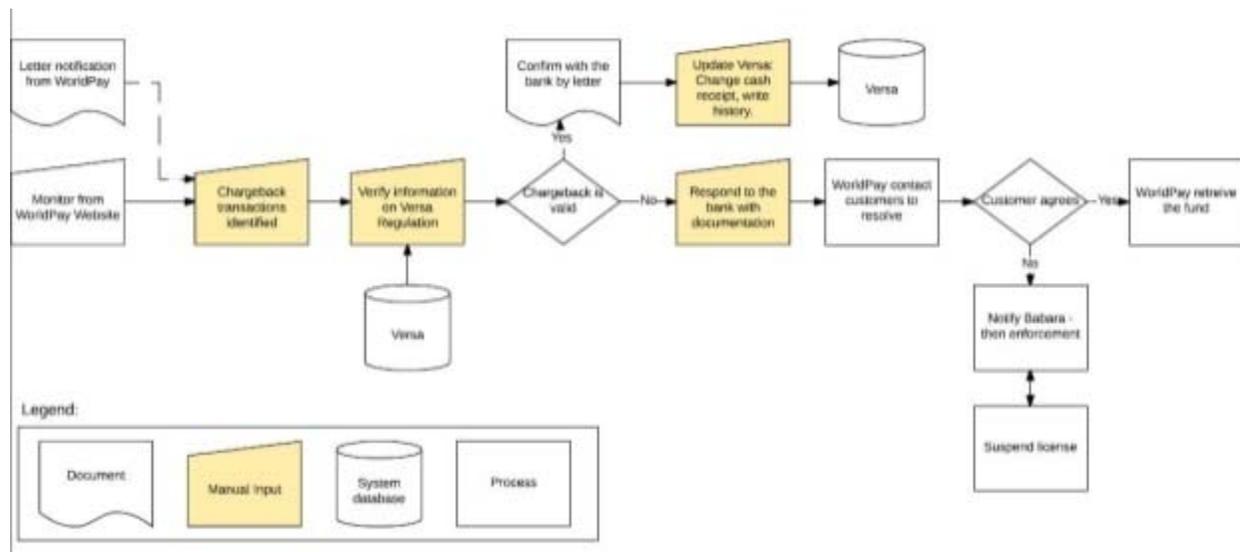


FIGURE 5: Chargeback Processing

Recommendation:

We recommend that the Agency change their chargeback transaction processing procedures. Versa provides a function for the SSS division to adjust the payment within Versa. If payment is not received within 20 days, Versa will notify the Enforcement division so that disciplinary action can be taken. We suggest that the Agency consider this alternative procedure instead of disputing chargeback transactions. When a chargeback occurs, SSS staff notes in Versa that there has been a chargeback and a disapproval of payment by marking the record as Not Sufficient Payment. [6]

Management Response:

We will explore the possibility of not disputing credit card chargebacks, weighing agency efficiencies of shifting this workload more quickly to Enforcement.

Daily Reconciliation Tools

The SSS Division lacks a centralized tool to manage exceptions to daily reconciliations: refunding, chargebacks, and crowbars. Each staff has their own spreadsheets to track the exceptions noted. These spreadsheets are not shared among team members. Therefore, when the daily reconciliation identifies an exception, the SSS staff is required to research the transaction regardless of whether it has been resolved or not. The Versa-to-MIP tool does not exclude the exceptions after they have been resolved. The lack of a workflow tool creates the need for inefficient spreadsheets and results in some duplication of effort.

The Versa-to-MIP tool only assists with daily transaction reconciliation but not the monthly reconciliation (or even daily summary deposits). While the tool has an option to reconcile by a date range instead of a single day, the functionality has not been tested or used by SSS division.

Recommendation:

We recommend that the agency analyzes the financial processes as a whole and identifies ways to develop applications to automate processes. The system should capture transaction details from Versa, classify them consistently with the bank statement and/or MIP accounting codes, and identify the exceptions requiring further investigations. The information should be made readily available to SSS staff for efficient reviewing. In addition, we recommend that the SSS division work with ITS to identify whether the Versa-to-MIP can perform a monthly reconciliation. {7}

Management Response:

This is an area that we have addressed with the new MIP system and we are in testing phase of the adjustments to create greater efficiencies. We have tested and will continue to test and refine the new Versa-to-MIP tool over the coming year. So far, we find the new features of this tool to create greater efficiencies and look forward to creating further refinements of the tool.

Paper Files

All documentation for deposits, disbursements, refunds, and chargeback adjustments, are currently in physical paper format. This creates a high risk of losing work papers and could result in the costs for updating, retrieving and maintaining documents. The monthly reconciliation process relies on gathering the paper documentation to generate the entries for reconciliation. SSS staff indicated that they sometimes have difficulties locating the paper documents. The reliance on paper also requires additional administrative time for SSS division.

Recommendation:

We recommend that TREC consider implementing an electronic work paper system and reduce the reliance of physical papers. {8}

Management Response:

We will continue to explore more fully automating financial systems within TREC, including work papers.

Processing Checks Received by Mail

We noted there was a timing lag in the processing of the mailed checks. According to the current process, the mail clerks will stamp the receipt number on the check and the application that's received, then assemble the application package and put in a batch. Each batch has a "batch header sheet" that shows the range of receipt numbers and subtotal as an internal control measure. The cashier accountant then checks the total for each batch, and separates the check and the license application batches. After that, the license applications are processed by the ELS division, which could take about three days. Meanwhile, the checks are stored in a safe. Once all the license applications related to a batch are processed, the cashier accountant verifies the batch amount again and makes necessary adjustments for refunds, if applicable. The batches of checks are then placed in the mailbox designated specifically for TTSTC to pick up. There are some operational risks related to the current process. Specifically, we noted instances when checks are rejected by the bank due to non-sufficient fund (NSF) or other reasons. The current process deposits the checks only after the applications are processed and approved. Therefore, it could lead to situations when applications are approved even though payments are subsequently identified to be invalid. This causes agency staff to go back and reject the application, which could affect the credibility of the agency as well as cause additional administrative time to resolve the invalid payments.

Recommendation:

The Agency should consider alternative procedures to receive check payments, such as depositing the checks on the same business day as they are received, or implementing a lockbox system. The lockbox system could be provided by the Trust, which allows the licensees to prepay their fees and get a confirmation receipt. This will eliminate the processing and safeguarding of the physical checks. Alternatively, the Agency could consider an internal lockbox system which secures the checks as they are received and allows the Agency to interact with either a scanned copy of the checks or a receipt number assigned by the lockbox system. {9}

Management Response:

We will explore alternative procedures to receiving checks and determine what is available to us through the Texas Online and Texas Treasure Safekeeping Trust Company.

VI. INFORMATION TECHNOLOGY APPLICATIONS GOVERNANCE

TREC ITS Division’s mission is to provide valuable, effective and timely service to the Agency, and to provide technological solutions to meet the Agency’s needs. In order to incorporate all divisions’ IT needs, the ITS project team meets with all division directors and executive director every two weeks. All division directors receive a weekly email report on the summary of all current projects. In addition, ITS teams meet every six weeks to discuss projects status and assignments. **Figure 7** provides the ITS functional organization chart.

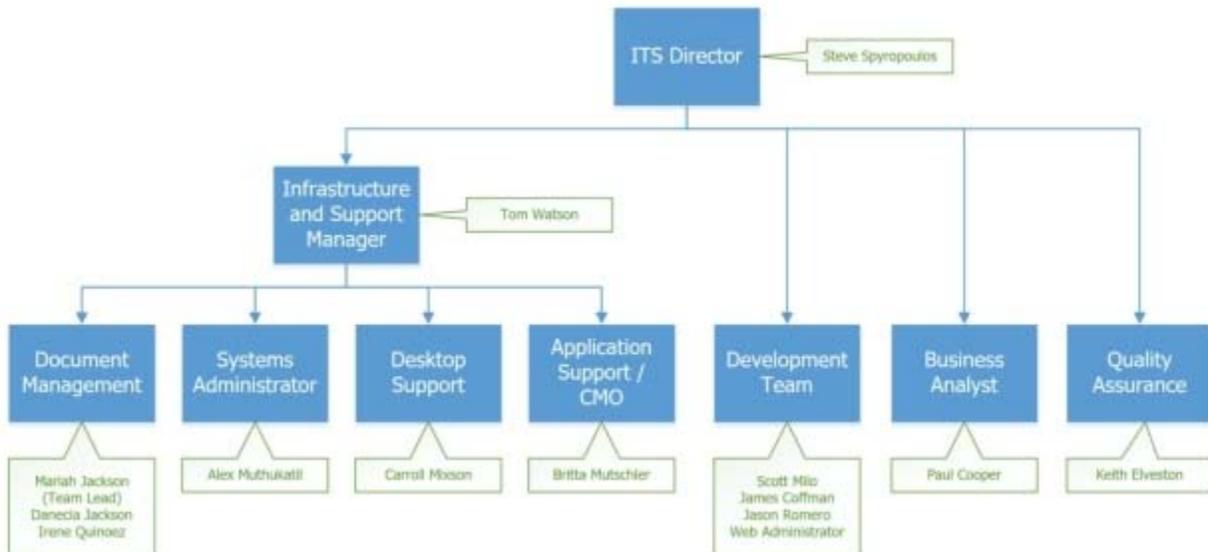


FIGURE 7: Organizational chart within ITS department

VII. INFORMATION TECHNOLOGY APPLICATIONS REVIEW RESULTS

ITS Application Documentation

Documentation reviewed for Information Technology projects did not conform to the department’s written policies. The “TREC financials” and “MIP Accounting” tools did not have the required documentation. The Versa-to-MIP interface’s documentation was limited. It included details of how the program processes information and an overall project objective but did not include the specific requirements communicated by the SSS Division. Critical elements of project documentation were missing or lacking details. These include:

1. Business Requirement Document;
2. Quality Assurance; and
3. User Acceptance testing.

There is a misunderstanding between the SSS division and the ITS Division about the project expectation and completion status. We noted that ITS division has a matrix determining the level of documentation

required for a project depending on its risk. However, the determination was not documented consistently with the policy and was not communicated to SSS division.

We also noted that the SSS Division is not informed about ITS' system development cycle. Therefore, the SSS Division does not have a clear understanding of their ability and responsibility to participate at different stages of the project.

Recommendation:

We recommend that the documentation of IT projects follow the established policies. Key information should be identified in detail, including business requirements, system design, quality assurance, and user acceptance testing. The policies and documentations should be shared with other divisions. {1}

Management Response:

We believe this is an area of continual improvement. ITS has robust documentation process for all projects related to Versa and will develop similar parameters for all IT projects.

Project Workflow Policy

The current Project Workflow policy does not address the security, integration with current infrastructure and post-implementation support. IT security is an inherent risk to any organization, especially when TREC deals with a large amount of personal information. The lack of security consideration could pose significant risk to the agency. The lack of current infrastructure consideration could result in ineffective and inefficient project development. The lack of post-implementation support consideration could result in failure to address key business requirements, applications not running as intended and high maintenance cost.

This is especially applicable for IT projects where the specific business requirements usually are not identified until the later phase of project development. Therefore, post-implementation issues are common.

Recommendation:

We recommend that all ITS information technology project policies incorporate the consideration for security, integration with current infrastructure and post-implementation support. {2}

Management response:

ITS has a matrix derived from the Texas Department of Information Resources that dictates what level of documentation projects require depending on size. Security is definitely a consideration on all projects and we intend to add language about security where appropriate.

Centralized ITS Policies and Procedures

ITS policies and procedures are not centralized in one location. There are over 20 different documents for different IT policies. There is no identification on the policies of when a policy is applicable. Specifically, there are two different policies for the project development procedure. There are inconsistencies between the two policies, and it is not clear what policies are applicable. Specifically, we identified inconsistencies in the Project Development Methodology policy at the agency. The ITS department established a Project Development Methodology in 2004 that is still in effect. A new Project Workflow policy was established in April 2017. We noted discrepancies between the two documents, including terminology and elements of the project development process. Specifically, the new policy does not address the security, integration with current infrastructure and post-implementation support, and does not include the matrix that classifies the projects into different levels of risk and documentation required. In addition, the original Project Development Methodology policy makes a reference to “security policy” but does not identify which policy should be considered. There are multiple security policies that are separate, such as privacy and security, database management, data classification, etc. Overall the lack of centralized policies could cause confusion as to what policies are applicable and therefore, the policies might not be enforced.

Recommendation:

We recommend that ITS policies should be centralized and made electronically available to the Agency. Additionally, all policies should indicate under which conditions they should be applied. Policies should not overlap, and policies that are inter-related should be referenced to each other. {2}

Management Response:

ITS has focused primarily on ensuring that policies are compliant with state requirements and with ensuring that we have an internal understanding of our processes. We are currently consolidating documented policies to make them easily accessible to all.

VERSA Functionality

Versa is a database used for licensing activities, which includes recording associated fee payments. VERSA is not an accounting system and therefore has limited functionalities to meet accounting and financial reporting needs. With respect to the ability to reconcile financial transactions with outside accounting systems, Versa’s proposal was to “track information agencies need to reconcile payments received with external accounting applications”. Therefore, Versa’s limited functionality was a common understanding between the vendor and TREC.

We noted that some of Versa’s capabilities and functions are not clearly understood by the current staff. For example, the SSS Division accounting staff expressed that they were not aware of the function to generate the NSF (Non-Sufficient Fund) report from Versa, while one staff member recalled having generated it in the past. The SSS Division accounting staff is also unfamiliar with the transaction tables in Versa’s database, therefore, has a limited understanding of the system’s capabilities.

We noted that VERSA's data tables contain many fields to classify the accounting transactions. If implemented properly, these fields can help streamline the accounting functions.

Recommendation:

We recommend that the director of SSS Division and the director of ITS Division consider the SSS Division's accounting and finance business objectives and set up the database to help address the business objectives. {3}

Management Response:

The Versa database has some limitations and we will make every effort to understand the needs of the agency's financial needs in SSS and bridge the functionality gaps either with applications developed in-house or change orders for the COTS Versa product.

VIII. INTEGRATION BETWEEN MIP AND VERSA ANALYSIS

TREC purchased and implemented Versa, an integrated licensing management system in 2009. As part of its functionality for the SSS Division, Versa provides a portal that automatically sends payment information and processing to the Texas Online payment system. The Texas Online payment system electronically remits a daily report in encoded files called PPTEXT. TREC receives check payments through mail in addition to the online credit card payments.

A detailed process was established to process these payments manually. Each payment in the Versa system has a unique transaction id number. Versa provides a web interface with limited reporting capabilities. However, TREC has direct access to Versa's Oracle Database.

In 2014, TREC purchased MIP, a third party accounting software, to support the financial statement preparation. Since MIP did not interface directly with Versa, the ITS Division initiated a few projects to develop programs to assist with this integration.

Summary for 3/22/2017		Versa							
Non-Adjustment Total	79,180.30	Non-Adjustment Total	79,022.70						
Adjustment Total	0.00	Adjustment Total	0.00						
Total	79,180.30	Total	79,022.70						
Error Count	2								
Totals by Fee Code									
Fund	Fee Code	Description	Total						
4054			1,832.70						
	AGOL	TXOL General RWL	45.00						
	AMMA	TXOL AMC Panel Prt A	5.10						
	AROL	TXOL Residential RWL	10.00						
	ATOI	TXOL TR Initial	5.00						
	BIOL	Spsnr Invite - TXOL	4.80						
	BIH7	TXOL Broker Indv RWL	315.00						
	BIT5	TXOL Broker Indv App	35.00						
	BOOL	Spsnr Invite - TXOL	58.20						
	BOR3	TXOL Broker RWL	67.00						
	IPR4	TXOL Inspector RWL	18.00						
	ISR4	TXOL Inspector RWL	3.00						
	SIR3	TXOL Sales RWL	764.00						
	SIT2	TXOL Sales App	445.00						
	SROL	Sponsor Req't - TXOL	57.60						
4055			41,206.00						
	BI00	Broker Indv App	1,050.00						
	BI02	Broker Indv Renewal	4,536.00						
	BI11	Late < 90 days BRR	108.00						
	BI12	Late > 90 Days BRR	36.00						
	BI55	Sponsorship Invite	160.00						
	BO02	Broker Org Renewal	936.00						
	BO11	Late < 90 Days BRR	72.00						
	BO12	Late > 90 Days BRR	36.00						
	BO55	Sponsorship Invite	1,940.00						
	IP02	INSP Profess RWL	360.00						
	IS02	INSP RE Lic RWL	50.00						
	SI00	Sales Indv 1 YR App	13,350.00						
	SI02	Sales Indv 2 YR RWL	12,606.00						
	SIL1	Late < 90 Days Sales	564.00						
	SIL2	Late > 90 Days Sales	132.00						
	SRB5	Sponsorship Req't	1,920.00						
	YMCD	CE Deferral Fee	2,600.00						
<table border="1"> <tr> <td>Summary</td> <td>MIP</td> <td>Adjustments</td> <td>Errors</td> <td>Original PPLEXT</td> <td>Deposit</td> </tr> </table>				Summary	MIP	Adjustments	Errors	Original PPLEXT	Deposit
Summary	MIP	Adjustments	Errors	Original PPLEXT	Deposit				

FIGURE 8: Versa Online reports from new Versa-to-MIP Interface

The first development was a web interface “TREC financials” in 2014, which performs a detailed reconciliation between Versa and PPLEXT for any selected date. The “TREC financials” also provide a daily summary report of all payments received, classified by payment code. Crowbar payments (payments received on PPLEXT file but not on Versa) are individually identified at the end of the reconciliation report.

The second system was “MIP Accounting Tools”, which has similar functionality but comes with the ability to extract more details, specifically for crowbar transactions. However, this system was not finalized due to internal turnover at TREC.

The third and most recent system is “Versa-to-MIP Interface” a project which began in 2015 and was programmed in March 2017. The system comes with the ability to perform reconciliation, separate adjustments, and prepare an MIP-friendly file to import transactions into MIP system (see figure 2).

The Accounting department currently utilizes both “TREC financials” and “MIP Accounting Tool” in its reconciliation procedures. The new “Versa-to-MIP Interface” is under testing within the department.

VERSA to MIP Interface

We noted that the functionalities of the first two integration tools, “TREC financials” and “MIP Accounting Tool,” are limited to daily reconciliation and only addresses some specific steps of the revenue process. Therefore, the SSS division accounting staff created work-around manual procedures to accomplish their business objectives. The functionalities and designs of the tools were not documented. ITS noted that these tools were not considered “Projects” and therefore they did not require documentation. However, SSS’s accounting team has been heavily dependent on these tools.

The Versa-to-MIP has been a significant improvement from the two previous tools. The new interface has more advanced functionalities and provides more information for exception handling. The documentation has also improved as it shows the system design and information process flow in details. However, we noted that some key elements of the documentation are missing. Additionally, the tool is still limited to daily reconciliations.

Upon reviewing the VERSA transaction data file, we noted that the current file could show the key information necessary for the daily as well as monthly reconciliations. The data tables can produce a summary of mailed checks and credit card payments, summary of refunds, chargebacks, unassigned payments (escrow payments, before being processed) and applied payments (escrow transactions, after being processed), summary by batch numbers, deposit numbers, trust accounts, etc. We also noted that there are existing fields and four unused fields to customize the classification of revenue transactions.

Recommendation:

We recommend that the director of ITS division and the director of the SSS division discuss the accounting and finance business processes to identify areas where automation is feasible, including:

- Monthly revenue reconciliation
- Classifying revenue transactions according to MIP and to USAS account codes
- Classifying refunds, crowbar and chargeback adjustments separately from regular transactions on a monthly basis {1}

Management Response:

The current MIP-to-Versa interface addresses financial issues that have needed addressing for several years and this final program has brought SSS closer to their goals of integrating revenue and expenditures than anything previously created to bridge the gap. ITS is committed to continually improving the product to meet these objectives.