

Fiscal Management Division  
Expenditure Audit Section  
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# Post-Payment Audit of Texas Department of Licensing and Regulation



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## EXECUTIVE SUMMARY

### Audit scope

We audited a sample of the Texas Department of Licensing and Regulation (TDLR) payroll, purchase and travel transactions that processed through the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS) during the period beginning Sept. 1, 2012, through Aug. 31, 2013, to determine compliance with applicable state laws.

The audited agency or institution of higher education receives appendices with the full report that may include a list of the identified errors and a projection to estimate the amount of improperly paid transactions. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

The audit provides a reasonable basis for the findings set forth in this report. TDLR should implement the recommendations listed in the Detailed Findings of this report. If necessary, the Texas Comptroller of Public Accounts (Comptroller's office) may take the actions set forth in Texas Government Code Annotated, Section 403.071(h) (Vernon 2013), to ensure that TDLR's documents comply in the future. TDLR must ensure that the findings discussed in this report are resolved.

*Texas law requires the Comptroller's office to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.*

### Payroll transactions and deductions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), [Texas Payroll/Personnel Resource](#) and other pertinent statutes.

- No issues were identified.

All of TDLR's voluntary contributions were also audited.

- No issues were identified.

### Purchase transactions

Purchase transactions were audited for compliance with the GAA, [eXpendit](#), the [State of Texas Procurement Manual](#) and other pertinent statutes.

The audit identified:

- One purchase transaction missing documentation of bids.
- One purchase transaction where TDLR created the purchase order (PO) after it received the invoice.

## Travel transactions

Travel transactions were audited for compliance with the GAA, [Textravel](#) and other pertinent statutes.

- No issues were identified.

## Internal control structure

TDLR's internal control structure was reviewed. The review was limited to obtaining an understanding of TDLR's controls sufficient to plan the audit and did not include tests of control policies and procedures.

The audit identified:

- One employee who could adjust payment instructions in the Texas Identification Number System (TINS) and approve paper vouchers without oversight.

## Fixed assets

The audit included a review of a limited sample of fixed assets acquired by expenditures during our audit period to test for accurate reporting in the State Property Accounting (SPA) System and to verify existence, location and proper reporting of the fixed assets.

- All assets tested were in their intended location and properly recorded in SPA.

## Direct deposit authorization forms

A review was conducted of TDLR's procedures to comply with the federal mandate to properly identify and handle payments involving the movement of funds internationally.

The audit identified:

- TDLR used an incorrect direct deposit setup form for one employee. The form did not adhere to the National Automated Clearing House Association rules requiring the identification of a direct deposit payment if it is an International Automated Clearing House Transaction.

## Prior post-payment audit and current audit recurring errors

A prior post-payment audit of TDLR's payroll, purchase and travel transactions was concluded on July 20, 2010.

During the current audit, the following recurring finding was identified:

- PO created after invoice.

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## DETAILED FINDINGS — PURCHASE

### Missing Documentation of Bids

#### Finding

During our audit of purchase transactions, we identified one purchase transaction which did not follow the required procurement process. TDLR used a specific vendor without requesting informal bids from other sources. TDLR stated that this purchase was for the protection program to a scanner. For that reason, the purchaser felt it was unlikely to find another vendor to service this equipment.

Agencies are required by 34 Texas Administrative Code, Section 20.391 (Vernon 2013) to obtain at least three bids for services over \$5,000 using the open market informal solicitation method. See [Section 2.8](#) of the *State of Texas Procurement Manual* for a detailed description of the procedures an agency must use to make a request for proposals of this nature.

#### Recommendation/Requirement

In order to ensure that TDLR's procurement process remains competitive, at a minimum TDLR must post a solicitation to the [Electronic State Business Daily](#). TDLR must follow the procedures outlined in the [State of Texas Procurement Manual](#) to ensure that no transaction violates procurement rules.

#### TDLR Response

*TDLR agrees with the recommendation. Procedures will be reviewed to ensure TDLR's procurement process remains competitive.*

## PO Created after Invoice

### Finding

We identified one PO that was created after TDLR received the vendor's invoice. When a PO is created after receipt of invoice, it becomes difficult for TDLR to ensure that it was not overcharged or billed for goods or services beyond those the agency had agreed to purchase. TDLR did not follow its normal documentation procedures for this transaction.

It is the general responsibility of a state agency and its officers and employees to “ensure for each purchase document, the agency maintains necessary documentation for proving that each payment resulting from the document is legal, proper, and fiscally responsible.” See 34 Texas Administrative Code, Section 5.51(c)(1)(D) (2013) and (e)(1)(2013).

### Recommendation/Requirement

TDLR must ensure that documentation of the agreement is prepared at the time of ordering the goods or services from the vendor. Once TDLR has made a final approved agreement with a vendor, it may not pay any amount in excess of the agreed-upon amount unless the agreement is amended due to the vendor providing a new benefit to the agency.

### TDLR Response

*TDLR agrees with the recommendation and will continue training efforts with procurement personnel to ensure TDLR's normal documentation procedures are followed.*

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## DETAILED FINDINGS — EXPENDITURE PROCESSING

### Control Weakness over Expenditure Processing

#### Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations TDLR placed on its accounting staff's abilities to process expenditures. We reviewed the agency's security for USAS, USPS and TINS as well as signature cards. We did not review or test any internal or compensating controls that the agency may have relating to USAS, USPS or TINS security or internal transaction approvals.

During the audit period, TDLR had one employee who could adjust payment instructions in TINS and approve paper vouchers.

In order to reduce risks to state funds, TDLR should maintain controls over expenditure processing that segregate each accounting task to the greatest extent practical. Ideally, no individual should be able to process accounting transactions within the statewide financial systems without another person's involvement.

#### Recommendation/Requirement

TDLR should continue to review the controls over expenditure processing and segregate each task to the extent possible to ensure that no individual is able to process payments without oversight.

#### TDLR Response

*TDLR agrees with the recommendation. Separation of duties and USAS security procedures were reviewed and the finding was corrected at the time of fieldwork.*