

Fiscal Management Division
Expenditure Audit Section
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Post-Payment Audit of the Fire Fighters' Pension Commission



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EXECUTIVE SUMMARY

Audit scope

A sample of the Fire Fighters' Pension Commission (FFPC) 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 March 1, 2012, through Feb. 28, 2013, was audited to determine compliance with applicable state laws.

Effective Aug. 31, 2013, FFPC was abolished by Sunset Review and the Texas Emergency Services Retirement System (TESRS) assumed most of its duties. The audit report serves as a closeout audit of FFPC.

TESRS received appendices with the full report that include summaries and itemized lists of identified errors. 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. TESRS should implement the recommendations listed in the Detailed Findings of this report. It is TESRS's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. 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 TESRS's documents comply in the future. TESRS 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

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

The audit identified:

- Two employee files missing payroll documentation.
- One incorrect longevity payment amount.

Purchase transactions

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

The audit identified:

- A missing procurement plan.
- Two transactions missing statutory authority for the purchase of goods.

Prompt payment and payment scheduling

FFPC's compliance with the prompt payment law and scheduling rules was audited.

The audit identified:

- Eighteen purchase transactions and 22 direct-billed travel transactions that did not pay interest when due.
- Nine purchase documents that were paid early.

Travel transactions

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

The audit identified:

- Two transactions where gratuities were paid.
- One overpayment of the lodging rate.

Security

The audit included a security review that entailed identifying any of FFPC's employees with security in USAS, USPS or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner.

The audit identified:

- One employee who retained the security to expend funds after termination.
- Two employees who retained the ability to expend funds after authority expired.

Internal control structure

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

The audit identified:

- One employee who could process and release payments through USAS without oversight, and also adjust payment instructions in TINS and approve paper vouchers.
- Two employees who could adjust payment instructions in TINS and approve paper vouchers.
- One employee who could adjust payment instructions in TINS and approve paper vouchers, and also pick up warrants from the Comptroller's office and approve paper vouchers.
- Two employees who could pick up warrants from the Comptroller's office and approve paper vouchers.

Prior post-payment audit and current audit recurring errors

A prior post-payment audit of FFPC's payroll, purchase and travel transactions was concluded on Dec. 30, 2009.

During the current audit, the following recurring errors were identified:

- Missing payroll documentation.
- Missing statutory authority for purchase of goods.
- Prompt payment and scheduling issues.
- Control weakness over expenditure processing.

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DETAILED FINDINGS — PAYROLL

Missing Payroll Documentation/Incorrect Longevity Payment Amount

Finding

In our review of FFPC's payroll transactions, we identified two personnel files that were missing the supporting documentation needed to verify the validity of specific payments.

One employee's personnel file was missing payroll documentation necessary to verify the employee's state effective service date. The employee included the prior state service on the job application. Because of the audit, FFPC requested and received the prior state service verification form and entered the data into USPS. The lifetime service credit changed based upon the additional months of employment verified.

This resulted in a total underpayment of longevity pay in the amount of \$740.00. FFPC has compensated the employee for the underpaid longevity amount and for the additional leave hours.

The other file was missing the termination personnel action form (PAF) and vacation leave documentation. The termination date and the employee's vacation leave are required to accurately calculate lump sum termination payments. The lump sum payment was verified by using USPS documentation the agency provided.

FFPC indicated that the missing documentation was due to staff turnover and the lack of written policies and procedures.

When an agency hires an employee, the agency must research if the employee has previous state employment. If prior state employment exists, the agency must confirm the amount of lifetime service credit or run the risk of underpaying longevity pay and/or lump sum vacation pay. See [Texas Payroll/Personnel Resource — General Provisions](#).

Agencies are required to maintain specific documentation to support the legality, propriety and fiscal responsibility of each payment made from agency funds. The Comptroller's office may require the documentation be made available during a post-payment audit, a pre-payment audit or at any other time. See [Texas Payroll/Personnel Resource — Required Documentation](#).

Recommendation/Requirement

TESRS should ensure written policies and procedures are in place that specify the supporting documentation needed to verify each payment.

Additionally, personnel files should be reviewed to ensure that all supporting documentation is retained in the files. Any missing documentation must be obtained and placed in the personnel files.

TESRS Response

We agree with the findings and these items have been corrected. A complete review of all personnel files has been completed and missing items were obtained. We have implemented procedures to ensure that PAF's are completed for all personnel actions, including terminations. It is also now part of our procedures to verify prior service credit.

DETAILED FINDINGS — PURCHASE

Missing Procurement Plan

Finding

The Comptroller's office requires that each agency formulate an agency procurement plan that identifies an agency's management controls and purchasing oversight authority.

A procurement plan must be on file with the Comptroller's Texas Procurement and Support Services (TPASS) Division and updates must be submitted as necessary. If no updates are made to the plan in a fiscal year, a letter must be sent to indicate "no changes." Procurement plan submittals and "no change" letters are due at the Comptroller's office by Nov. 30 of each year.

FFPC did not submit a procurement plan as required by Section 1.3 of the [Procurement Manual](#).

Recommendation/Requirement

TESRS must develop a procurement plan that meets the requirements of Texas statutes and delegated purchasing authority. State agencies must formulate an agency procurement plan that identifies an agency's management purchasing oversight authority. See 34 Texas Administrative Code, Section 20.41(h).

TESRS must submit its procurement plan to TPASS by Nov. 30 each year.

TESRS Response

*We agree with the finding. We contacted TPASS and learned that the previous agency never filed a procurement plan with the Comptroller's office. We are in the process of developing a compliant procurement plan and will submit it to TPASS by the end of March 2014.**

*TPASS received the TESRS procurement plan on March 28, 2014.

Missing Statutory Authority for Purchase of Goods

Finding

On two purchase transactions, FFPC purchased promotional items without having adequate statutory authority to do so.

A state agency has implied statutory authority to purchase a good or service only if it is necessary for the agency to fulfill its specific statutory duties. FFPC was of the opinion that they had the necessary authority to procure promotional items.

Due to oversight, FFPC could not provide documentation to substantiate that these purchases were necessary to fulfill its duties.

Recommendation/Requirement

TESRS must update its policies and procedures to ensure that it does not purchase goods or services that it does not have the statutory authority to purchase.

TESRS Response

We agree with the findings. We agree that the former agency (FFPC) did not have statutory authority to purchase promotional items and the new agency (TESRS) will not make these kinds of purchases.

DETAILED FINDINGS — TRAVEL

Gratuities Not Payable

Finding

We identified two travel transactions that reimbursed an employee for expenses that included gratuities. Article III, Section 51 of the Texas Constitution prohibits the giving away of the state's money for private purposes. The payment of gratuities is a violation of this section.

FFPC indicated that the error was not identified during the review process.

Recommendation/Requirement

TESRS must continue to ensure that all travel expense claims are thoroughly reviewed for legality and accuracy prior to payment.

TESRS Response

We agree with the findings and have corrected procedures. Proper documentation for expenditures is the issue in this case. One instance of gratuity was actually business supplies purchased through a hotel, who noted the items as 'gratuity' in error on the invoice. The other instance of gratuity being paid in the amount of \$5.00 was simply an oversight. We now have procedures to ensure that gratuity is not paid.

Overpayment of Lodging Rate

Finding

We noted one travel payment which included a lodging rate greater than the allowable limit.

The hotel charge of \$145/night exceeded the state contracted rate of \$88/night for a total overpayment of \$171. FFPC stated that this occurred due to an oversight.

A state employee who travels within the continental United States shall be reimbursed for the actual cost of lodging; however, the reimbursement may not exceed the maximum lodging rate for the employee's duty point based on the federal travel regulations issued by the Comptroller's office. See the GAA, 2011, Article IX, Section 5.06 (a) (IX-24) and [Textravel — Meals and Lodging](#).

Recommendation/Requirement

We recommend that TESRS take the necessary steps to adequately review all vouchers submitted into USAS for payment to ensure that only expenditures that comply with state laws and rules are included in the entries.

TESRS should seek reimbursement for the excessive amount unless it determines it is not cost effective to do so.

TESRS Response

We agree with the finding and have corrected procedures. Proper documentation for expenditures is the issue in this case. The occasion where the lodging rate was overpaid was because an employee attended a conference in a hotel that was sold out, and was unable to obtain nearby lodging at the state rate. We now have procedures to ensure that documentation on exceptions to travel regulations are properly noted in the file.

DETAILED FINDINGS — PURCHASE/TRAVEL

Prompt Payment and Payment Scheduling Issues

Finding

Prompt payment issues

According to the prompt payment law, Texas Government Code, Section 2251.021 (a) (Vernon 2008), a governmental entity's payment is overdue on the 31st day after the latest of:

- The date the governmental entity receives the goods under the contract,
- The date the performance of the service under the contract is completed, or
- The date the governmental entity receives an invoice for the goods or services.

The Comptroller's office automatically computes any interest due under the prompt payment law. A state agency is liable for any interest that accrues on an overdue payment and shall pay the interest from funds appropriated or otherwise available to the agency with the net amount for the goods or services. See Texas Government Code Annotated, Section 2251.026 (Vernon 2008).

During the audit period, FFPC paid \$0.03 of prompt payment interest.

We identified 18 purchase transactions and 22 direct-billed travel transactions that did not pay interest when due. These transactions resulted in a total amount of \$615.05 in interest errors. According to FFPC, the errors occurred due to oversight.

Payment scheduling issues

Texas Government Code Annotated, Section 2155.382(d) (Vernon 2008), authorizes the Comptroller's office to allow or require state agencies to schedule payments that the Comptroller's office will make to a vendor.

The Comptroller's office must prescribe the circumstances under which advance scheduling of payments is allowed or required; however, the Comptroller's office must require advance scheduling of payments when it is advantageous to the state.

We identified nine purchase transactions that FFPC paid early, resulting in an estimated loss of earned interest to the State Treasury of \$29.09. FFPC stated that this issue occurred due to oversight.

Recommendation/Requirement

TESRS must review its procedures to ensure that payment information is submitted for processing in a timely manner to avoid incurring interest liabilities. TESRS must also verify that proper due dates are entered in USAS to ensure that if interest is due, it is actually paid to the vendors.

To minimize the loss of earned interest to the State Treasury, TESRS must schedule all payments that are greater than \$5,000 for the latest possible distribution and in accordance with its purchasing agreements as described under eXpendit's [Payment Scheduling](#) and [Prompt Payment](#) tabs.

TESRS Response

We agree with the findings and have corrected procedures. Proper documentation on invoice receipt dates is the issue in these cases. We have implemented procedures to ensure that all invoices, including emailed invoices, are stamped with a received date so that correct determinations can be made concerning payment due dates.

DETAILED FINDINGS — EXPENDITURE APPROVALS

Employee Retained Ability to Expend Funds After Termination / Employees Retained Security to Expend Funds After Authority Expired

Finding

Employee retained ability to expend funds after termination

During the audit period, FFPC failed to notify the Comptroller's office about the termination of one employee designated by FFPC to approve its expenditures. The employee remained listed on FFPC's voucher signature cards for 30 days after authority expired.

This means that the former employee could have approved paper vouchers submitted to the Comptroller's office during that time. Any payment produced by a paper voucher that was approved by the employee's expired authority would have constituted an unapproved expenditure.

Employees retained security to expend funds after authority expired

In addition, the former employee and another former employee retained their USAS and USPS security for three and 35 days after termination, respectively, allowing the employees to approve electronic vouchers during that time. According to FFPC, the employees remained on the signature cards and retained USAS and USPS security due to oversight.

Governing rules

Whenever a designated employee terminates employment with an agency, the Comptroller's office must receive notification of the employee's termination no later than the fifth day after the effective date of the employee's termination. See 34 Texas Administrative Code, Section 5.61 (2013). Any officer or employee may send the Comptroller's office that notification. See Section 5.61(k)(3)(B).

Additionally, Section 5.61 does not specify how the Comptroller's office is to be notified about designated employees' terminations. Therefore, the Comptroller's office will accept e-mails, faxes, letters, memos or any other correspondence, as long as it is in writing and indicates that a designated employee has terminated employment and the notification specifies the effective date of the employee's termination.

For an employee whose authority to approve an agency's expenditures is revoked for any reason, the employee's USAS and USPS security profile must be changed no later than the effective date of the revocation or termination to prevent the employee from executing electronic approvals for the agency. See 34 Texas Administrative Code, Section 5.61(k)(5)(A)-(B) (2013).

Recommendation/Requirement

TESRS must ensure compliance with the preceding requirements.

TESRS must also ensure that the person responsible for sending the employee termination notifications to the Comptroller's office:

- Is aware of the designated employee's termination on or before the termination becomes effective and
- Follows through with the Comptroller's office to ensure that the notification was received and the revocation/removal of the employee's security occurred.

TESRS Response

We agree with the findings and have corrected security. The agency completed a thorough review of signature and electronic authority and has updated those records accordingly. We have incorporated a review of security as part of our procedures on all position changes and employee terminations.

Control Weakness Over Expenditure Processing

Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations FFPC 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, FFPC had:

- One employee who could process and release payments through USAS without oversight, and also adjust payment instructions in TINS and approve paper vouchers.
- Two employees who could adjust payment instructions in TINS and approve paper vouchers.
- One employee who could adjust payment instructions in TINS and approve paper vouchers, and also pick up warrants from the Comptroller's office and approve paper vouchers.
- Two employees who could pick up warrants from the Comptroller's office and approve paper vouchers.

To reduce risks to state funds, FFPC should implement controls over expenditure processing that segregate each accounting task to the greatest extent practical. Ideally, no individual should be able to enter or alter and then release payments or other accounting transactions within the statewide financial systems without another person's involvement.

We ran a report to determine if any of FFPC's payment documents processed through USAS or USPS during the current period because of the action of one individual. There were no USAS or USPS documents that were entered or changed and approved by the same person without oversight during our audit period.

Recommendation/Requirement

TESRS should 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. See [USAS Accounting and Payment Control \(FPP B.005\)](#) that explains how agencies can reduce risks to state funds including preventative system controls.

For example, TESRS may request that a preventative control be enforced for all of their transactions in USAS. If an agency requests the control, an edit will prevent the release of a document that the same user entered or altered, or warn when this is about to occur.

TESRS Response

We agree with the findings and have strengthened internal controls and corrected security. The agency completed a thorough review of internal controls and, as a result, made changes to USAS, USPS and TINS security as well as the bailment contract with the Comptroller's office. The noted internal control weaknesses have been corrected.