

Fiscal Management Division  
Expenditure Audit Section  
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# Post-Payment Audit of the Texas Commission on Fire Protection



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## EXECUTIVE SUMMARY

### Audit scope

We audited a sample of the Texas Commission on Fire Protection (Commission) 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, 2013, through Feb. 28, 2014, to determine compliance with applicable state laws.

The Commission received appendices with its full report that included a list of the 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. The Commission should implement the recommendations listed in the Detailed Findings of this report. It is the Commission'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 the Commission's documents comply in the future. The Commission 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), the [Texas Payroll/Personnel Resource](#) and other pertinent statutes.

- No issues were identified.

A limited sample of voluntary deductions was 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:

- A missing procurement plan.
- Freight not on purchase order.
- Missing documentation.
- Improper payment of sales tax.
- Purchase orders created after invoice.

## Travel transactions

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

The audit identified:

- A lack of conservation of state funds.
- An incorrect mileage rate used.
- A missing proof of payment.

## Grant transactions

The audit included a limited review of the Commission's transactions relating to grant payments. This review consisted of verifying that payments did not exceed authorized amounts. The review of these payments did not include an investigation of the Commission's procedures for awarding the grants or monitoring payments made to grantees; therefore, we are not offering an opinion on those procedures.

- No issues were identified.

## Security

The audit included a security review to identify any of Commission'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 authority expired.

## Internal control structure

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

The audit identified:

- Three employees who could process and release payments through USAS without oversight.
- Two employees who could pick up warrants from the Comptroller's office and approve vouchers.
- One employee who could process and release payrolls.
- Confidential Treatment of Information Acknowledgement (CTIA) forms not signed in a timely manner.

## Direct deposit authorization forms

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

The audit identified:

- That the Commission did not have the direct deposit setup form for one vendor. The direct deposit form is necessary to document compliance with the National Automated Clearing House Association rules requiring the identification of a direct deposit payment if it is an International Automated Clearing House Transaction.

## Fixed assets

The audit included a limited number of fixed assets acquired by the Commission during the audit period to test for accurate reporting in the State Property Accounting (SPA) System and to verify existence of the assets.

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

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

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

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

- Missing documentation.
- Purchase order created after invoice.
- Freight not documented on purchase order.
- Control weakness over expenditure processing.
- Employee retained security to expend funds after authority expired.

## Other observations

We identified purchase orders that did not contain documented approvals prior to purchasing items. This observation caused the Commission to add a module to their internal accounting system that would include electronic approvals as part of their approval process.

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## DETAILED FINDINGS — PURCHASE

### Missing Procurement Plan

#### Finding

Texas Procurement and Support Services (TPASS) requires each agency to formulate an agency procurement plan to identify an agency's management controls and purchasing oversight authority. A procurement plan must be on file at TPASS, with updates submitted as necessary. When no updates to the plan are needed in a fiscal year, a letter must be sent to indicate "no changes." Procurement plan submittals or "no change" letters are due to TPASS by Nov. 30 each year.

The Commission staff stated that the procurement plan was outdated and they were not aware of the requirement to submit the plan to TPASS; therefore, the procurement plan was not submitted to TPASS as required by section 1.3 of the [\*State of Texas Procurement Manual\*](#).

#### Recommendation/Requirement

The Commission must update its procedures and submit its procurement plan to TPASS by Nov. 30 each year.

#### Commission Response

*The Commission will update and revise its procurement plan and submit by Nov. 30, 2014.*

## Freight Not on Purchase Order

### Finding

We identified two transactions where the Commission paid freight charges that were not included on the original purchase order (PO). Freight charges not specifically identified on the original PO should not be paid by the Commission. The Commission stated that it was due to an oversight.

A purchase agreement and/or purchase order is a contract entered into by the state and a vendor. The Commission may pay only the contracted amount as shown on the purchase agreement. If freight charges are not included in the purchase agreement, the charges are not owed by the Commission and should not be paid.

### Recommendation/Requirement

The Commission should document all freight terms on each PO. In situations where the final amount of freight cannot be determined, estimates may be used. In those instances, the Commission should document the limit that may not be exceeded for any freight amount. If it is determined that the upper limit for a freight amount will be exceeded, the vendor should obtain approval for the higher amount. Any approvals for higher amounts should be documented prior to receiving the invoice.

### Commission Response

*The Commission will review POs closely to ensure that freight costs are included. The purchaser will research all freight costs and require vendors to submit an estimate for that cost. The vendor-estimated freight charge will be included on the PO. If an actual freight charge exceeds the amount indicated on the original PO, the purchaser will require a vendor to verify and submit for approval the additional freight amount prior to the Commission processing the invoice.*

## Missing Documentation

### Finding

We identified two purchase transactions missing receiving documentation to verify receipt of goods purchased. We also identified one payment card transaction missing documentation to support the payment. Due to employee turnover, the Commission was unable to locate the documents needed to support these payments.

Without proper documentation, we could not determine whether the information entered into USAS was an accurate reflection of the intended purchases made. Proper documentation must be maintained to verify that payments are valid and to ensure a proper audit trail.

As provided by 34 Texas Administrative Code, Section 5.51(c)(1)(D) (2013), it is the 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.”

Supporting documentation must be made available to the Comptroller’s office in the manner required by the agency. The types of supporting documentation that the Comptroller’s office may require include purchase orders, requisitions, contracts, invoices and receipts. See 34 Texas Administrative Code, Section 5.51(e)(2)-(3) (2013).

### Recommendation/Requirement

The Commission must ensure that no payment is made without sufficient supporting documentation. The Commission must also ensure that it creates and maintains supporting documentation for audit review. The Commission should review and update its procedures for maintaining proper supporting documentation for all purchases.

### Commission Response

*New Standard Operating Procedures are being developed and will be in effect for fiscal year 2015 that will require completion of proper documentation for all transactions.*

## Improper Payment of Sales Tax

### Finding

We identified three payment card transactions and one purchase transaction where the Commission improperly paid sales tax to the vendor. These payments were made due to an oversight by the Commission.

The state of Texas, its incorporated agencies and instrumentalities are exempt from sales taxes. See 34 Texas Administrative Code, Section 3.322(c)(4) (2013). The state and its agencies are exempt from certain fees imposed. The purchase, lease or rental of a taxable item to an exempt organization is exempt from tax when the organization or an authorized agent pays for the taxable item and provides the vendor with a tax exemption certificate.

### Recommendation/Requirement

The Commission's employees and its authorized agents must present vendors with tax exemption certificates before any purchases are made. The Commission must thoroughly examine invoices or receipts submitted by vendors to ensure that it does not pay sales tax for which it is not liable. The Commission should contact and request a refund from the vendor unless the Commission determines it is not cost effective to do so.

### Commission Response

*Standard Operating Procedures being developed will include a section on sales tax and the proper procedure for notifying vendors. The Commission will adopt a more comprehensive review of invoices to avoid sales tax payment, and will request refunds whenever necessary unless it is determined that it is not cost effective.*

## Purchase Order Created After Invoice

### Finding

We identified seven POs that were created after the Commission received the vendor's invoice. When a PO is created after receipt of invoice, it becomes difficult for the Commission to ensure that it was not overcharged or billed for goods or services beyond those the Commission had agreed to purchase. The Commission did not follow its normal documentation procedures for these transactions.

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

The Commission must ensure that documentation of the agreement is prepared at the time of ordering the goods or services from the vendor. Once the Commission 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.

### Commission Response

*New Commission Standard Operating Procedures will include procedures for processing invoices and POs. The procedure will include the requirement for the origination of a PO prior to the creation of the corresponding invoice. Any changes after the PO is originated will require an amended purchase order.*

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## DETAILED FINDINGS — TRAVEL

### Lack of Conservation of State Funds

#### Finding

We identified seven instances where the Commission reimbursed travelers for mileage while operating personally owned vehicles to conduct official business. However, based on the applicable car rental rates, related tax, cost of gas and the standard mileage rates in effect at the time of travel, we determined that it was more cost effective for the state if the travelers used rental vehicles instead of personally owned vehicles. The Commission did not have policies and procedures in place that require employees to prepare a cost comparison between using a rental car versus personal vehicle prior to travel.

During our audit, the Commission was in the process of updating their policies and procedures to implement a cost analysis policy to ensure the most cost efficient method of travel.

According to Texas Government Code Annotated, Section 660.007(a) (Vernon 2012), a state agency shall minimize the amount of travel expenses paid or reimbursed by the agency. The agency shall ensure that each travel arrangement is the most cost effective considering all relevant circumstances.

#### Recommendation/Requirement

The Commission must exercise caution in its use of state funds and ensure that those expenditures are fiscally responsible.

#### Commission Response

*The Commission recently began requiring the use of cost comparison analysis aids for personnel and commissioners in order to ensure the most cost effective methods of travel. The documents reviewed in this audit were from the period prior to the adoption of this requirement.*

## Incorrect Mileage Rate Used

### Finding

We identified one travel voucher where the Commission used an incorrect mileage rate for reimbursement. The reimbursement rate on the travel date was \$0.565 a mile. The Commission did not notice that the incorrect mileage rate of \$0.56 a mile had been used when reviewing the travel voucher. See [Texttravel – Mileage in Personal Vehicle](#).

### Recommendation/Requirement

The Commission should continue to review all travel reimbursements for accuracy and completeness prior to payment.

### Commission Response

*The Commission will include in its Standard Operating Procedures a requirement to verify all travel vouchers for accuracy and completeness prior to payment.*

## Missing Proof of Payment

### Finding

We identified one travel voucher where the lodging receipt did not indicate that the employee paid the balance. The Commission did not notice the outstanding balance in reviewing the receipt. Without proper payment documentation, we could not determine whether the payment was an accurate reflection of the expense incurred by the traveler.

For a state employee to be reimbursed for a lodging expense and related tax, the employee must provide proof of payment. See [Texttravel – Lodging Receipt Requirements](#).

### Recommendation/Requirement

The Commission must ensure that employees' lodging receipts show adequate payment documentation prior to reimbursement. The Commission should obtain an updated receipt from the lodging vendor reflecting zero balance for the travel voucher unless the Commission determines it is not cost effective to do so.

### Commission Response

*Personnel who travel for Commission business have been notified that they must turn in a zero balance lodging receipt with travel documentation. The accounting department will require this for all future transactions.*

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## DETAILED FINDINGS — EXPENDITURE APPROVALS

### Employee Retaining Security to Expend Funds After Authority Expired

#### Finding

During the audit period, the Commission did not submit a timely request to the Comptroller's office to remove one employee's USAS and USPS security to electronically approve Commission's expenditures. This permitted the employee to approve any vouchers that the Commission submitted electronically to the Comptroller's office through USAS or USPS after the authority expired.

When an employee's authority to approve an agency's expenditures is revoked for any reason, the employee's security profile must be changed not 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).

The Commission has procedures to remove access to all agency systems upon termination of employees, but in this instance these procedures were not followed.

#### Recommendation/Requirement

The Commission must ensure its procedures are followed. The Commission must also ensure that the person responsible for sending requests to the Comptroller's office is aware of the designated employee's revocation on or before the date the revocation becomes effective. The Commission must also follow through with the Comptroller's office to ensure receipt of the request and removal of the employee's security.

#### Commission Response

*The Commission will ensure there is a more timely response to revoke an employee's access and authority in any of the Commission's electronic systems.*

## Control Weakness Over Expenditure Processing/CTIA Not Signed in a Timely Manner

### Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations the Commission placed on its accounting staff members' abilities to process expenditures. We reviewed the Commission's USAS, USPS, Texas Identification Number (TINS) and voucher signature card security in effect during the audit period. We did not review or test any internal or compensating controls the Commission may have had relating to USAS, USPS or TINS security or internal transaction approvals.

We identified three employees with the ability to process and release payments through USAS, and one employee who could process and release payrolls without electronic oversight. In addition, we found that two employees could pick up warrants from the Comptroller's office and approve vouchers. The Commission received a schedule of this finding during fieldwork.

To reduce risks to state funds, agencies should have controls over expenditure processing to 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 (systems) without another person's involvement.

As a routine part of our security review, we evaluated the Commission's compliance with the requirement that all agency users of Comptroller systems must complete a Confidential Treatment of Information Acknowledgment (CTIA) form. When a new user needs access to Comptroller systems, the agency's security coordinator must first have the user read and sign the CTIA form. A reviewing official also signs the form, which the agency's security coordinator keeps on file for as long as the user has access to the systems, plus five years. In our review, we identified four CTIA forms signed after the individuals had accessed Comptroller systems.

### Recommendation/Requirement

The Commission 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.

The Commission may request a preventative control be enforced for all transactions in USAS. If an agency requests the control, an edit prevents the release of a document that the same user entered or altered, or warn when this is about to occur. See [\*USAS Accounting and Payment Control \(FPP B.005\)\*](#).

The Commission should enhance its procedures to ensure that no user gains access to the statewide financial systems without a timely and properly completed CTIA form.

**Commission Response**

*New designated Commission employees fill out the CTIA form as part of their orientation. However due to administrative personnel changes, the forms could not be located and made available for review at the time of the audit. The new finance manager had personnel sign new forms, and will ensure that the forms are on file and available for review.*