

Fiscal Management Division
Expenditure Audit Section
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Post-Payment Audit of the Texas School for the Blind and Visually Impaired



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EXECUTIVE SUMMARY

Audit scope

We audited a sample of the the Texas School for the Blind and Visually Impaired (School) 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 Dec. 1, 2011, through Nov. 30, 2012. We also conducted a limited review of transactions for capital outlay, payment cards, and seminars and conferences. All transactions were audited to determine compliance with applicable state laws.

The School received appendices with its full report, including a list of the identified errors and an errors projection to estimate the amount of improperly paid transactions. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

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.

The audit provides a reasonable basis for the findings set forth in this report. The School should implement the recommendations listed in the Detailed Findings of this report. It is the School'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 School's documents comply in the future. The School must ensure that the findings discussed in this report are resolved.

Payroll transactions and payroll deductions

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

- After the payroll transactions were audited, an issue was brought to our attention that some of the payroll data provided by the School may be unreliable. Therefore, the Comptroller's office will not comment on the accuracy of payroll transactions and deductions until a follow-up audit is completed.

Purchase transactions

Purchase transactions were audited for compliance with the GAA, [eXpendit](#), the [State of Texas Procurement Manual](#) and other pertinent statutes. The audit included a limited review of the School's transactions relating to payment cards, construction in progress and seminars and conferences.

The audit identified:

- Inadequate controls over fees collected and reimbursed.
- Improper payment of taxes, surcharges and gratuities.
- Purchase order created or changed after the invoice was received.
- Missing or insufficient documentation.

Prompt payment and payment scheduling

We audited the School's compliance with the prompt payment law and scheduling rules.

The audit identified:

- Interest loss to the State Treasury because of early payments.
- Interest not paid.
- Interest overpaid.

Additionally, during the current audit period, the School paid \$916.08 in prompt payment interest.

Travel transactions

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

- No issues were identified

Internal control structure

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

The audit identified the following control weaknesses:

- Two employees can:
 - Process and release payments through USAS.
 - Process and release payrolls.
 - Pick up warrants from the Comptroller's office and approve vouchers.

Fixed assets

The audit included a limited review of fixed assets acquired by expenditures 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.

The School reported nine missing assets during the audit period. However, during fieldwork six assets were located while three remain missing.

Prior post-payment audit and current audit recurring errors

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

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

- Purchase agreement created after goods/services rendered.
- Missing or insufficient documentation.
- Control weakness over expenditure processing.
- Prompt payment and payment scheduling issues.

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DETAILED FINDINGS — PURCHASE

Inadequate Controls Over Expenditures for Seminars and Conferences

Finding

We audited eight transactions that included food and lodging purchased for seminars and conferences. During our audit, the School was unable to provide adequate documentation to account for fees collected and expensed for seminars and conferences. In addition, all of the purchase orders (POs) were created after the invoices were received and, on some transactions, the School paid taxes and gratuities.

Inadequate Controls Over Fees Collected and Reimbursed

The School stated that it collected fees to defray the expenses of seminars and conferences but was unable to show how much was collected or how it was allocated. The School provided a summary statement explaining how state money was included to subsidize the conference expenses. It did not provide documentation detailing the amount of fees collected or how this money was allocated to conference expenses.

All funds collected to pay the cost directly associated with the conducting of seminars, conferences or clinics that directly relate to the legal responsibilities and duties of the agency and that are for the purposes of education, training or informing employees or the general public are appropriated for the necessary expenses incurred in conducting the seminar — provided that all applicable laws, rules and regulations for the acquisition of goods and services for the state shall apply to the expenditures. See General Appropriations Act, Article IX, Section 8.08.

Purchase Order Created After Invoice

POs were created after the vendor invoiced the School for services. The School's procedures require that staff create a PO prior to obtaining services, but this procedure was not followed in these instances.

When a PO is prepared or changed after the invoice is received, it becomes difficult for the School to ensure that it was not overcharged or billed for goods or services beyond those the School had agreed to purchase. Additionally, by creating or updating the purchase agreement to match the invoice amount, the School allows the vendor to invoice for any amount the vendor chooses.

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).

Improper Payment of Taxes and Gratuities

On two transactions, the School paid taxes. On one transaction, the School paid gratuities. None of these charges are payable with state funds.

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 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 an exemption certificate in lieu of tax. See 34 Texas Administrative Code, Section 3.322(f)(2) (2013).

Texas Constitution Article III, Section 51, prohibits the giving away of the state's money for private purposes. The payment of gratuities and service charges are violations of this section.

Recommendation/Requirement

The School must strengthen its controls to ensure that an adequate audit trail is created to document all revenues received and expenses paid for conference and seminars.

The School must ensure that documentation of the agreement is prepared at the time the goods or services are ordered from the vendor. Once the School has made a final approved agreement with the vendor, the School 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, i.e., consideration, to the School. The School must properly review the purchase agreement, comparing it to the invoice to ensure that the payments do not exceed the amount authorized in the purchase agreement. In addition, the School must document any amendments to the PO.

The School must ensure that it thoroughly reviews invoices to ensure that they are correct and do not include taxes and gratuities. The School must ensure that all expenses are thoroughly reviewed for legality and accuracy prior to payment.

School Response

Inadequate Controls Over Fees Collected and Reimbursed

We disagree with this finding as written. It may appear to an uninformed reader that we did not have control over the receipt of the fees and the subsequent reporting of the revenue received. We did properly account for all funds received. However, a reconciliation for each and every seminar and conference was not always prepared. As such, we agree that we did not adequately reconcile the fees collected for a particular seminar or conference. However, we feel that we did adequately account for the revenues received.

We also would ask for clarification on the last sentence in Section 8.08. This sentence clearly allows for any unexpended balances to be appropriated in the following year for the same purpose.

We have always interpreted this to imply that any balances of collections for prior seminars and conferences could be used for subsequent seminars and conferences (same purpose). This finding seems to contradict our understanding of this provision.

Purchase Order Created After Invoice

Corrective action has been initiated.

Improper Payment of Taxes and Gratuities

This occurred due to administrative error. We have documented many instances of taxes and/or gratuities being repaid to the School. Additional corrective action has been initiated.

Comptroller Response

Inadequate Controls Over Fees Collected and Reimbursed

During the audit, the School did not provide sufficient documentation to determine the amounts collected and expensed. The funds collected should have been deposited in a special appropriation to account for the fees collected. This appropriation was never requested by the School to be created.

We did not address the School's authority to expend the fees collected in future appropriations because:

- It was not clear that unexpended balances existed in these accounts due to the lack of documentation provided and
- The funds were comingled with other revenue.

We recommend that the School maintain an adequate audit trail and a separate agency appropriation to substantiate any account balances for future seminars and conferences.

The General Appropriations Act, Article IX, Section 8.08, does make provision for unexpended balance authority within the context of conferences and seminars provided those funds can be specifically identified.

Purchase Order Created/Changed After Invoice Received

Finding

We identified eight instances where a PO was created and one instance where a PO was changed after the vendor invoiced the School for services. The School's procedures require that staff create a PO prior to obtaining services, but this procedure was not followed in these instances.

Without issuing the PO and documenting it with the vendor prior to ordering the service, it becomes difficult for the School to ensure it is not overcharged or billed for services beyond those the School had agreed to purchase.

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).

Recommendation/Requirement

The School must ensure its procedures are followed. While a formal purchase order is not required, the School must ensure that documentation of the purchase agreement is prepared at the time the School orders the goods or services. Once the School has made a final approved agreement with the vendor, the School 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, i.e., consideration, to the School. The School may also consider disciplinary measures for employees who consistently fail to follow procedures.

School Response

We agree with the finding and recommendation. We are continually working to have individuals making purchases in other departments comply with the requirements for purchase order submission.

Missing/Insufficient Documentation

Finding

We identified six transactions missing documentation necessary to verify the payments:

- Two purchase transactions were missing the time sheets necessary to verify the number of hours and rate paid to the vendor.
- Two purchase transactions were missing the documentation necessary to prove that the vendor was a proprietary vendor.
- Two payment card transactions lacked adequate documentation to enable us to verify the detailed rates that were billed by the vendor. These transactions were not properly itemized.

According to the School, these errors were due to oversights made when processing the 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 the payments are valid as well as to maintain a proper audit trail.

Using payment cards may help agencies streamline the purchasing and payment processes, but it does not eliminate the need for the same expenditure detail required of other payment methods. See [TINS Vendor Setup Requirements \(FPP E.043\)](#). The payment cards serve only as a means of payment.

Supporting documentation must be made available to and in the manner required by the Comptroller's office. The types of supporting documentation 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). Proper supporting documentation for a purchase must be maintained at least until the end of the second appropriation year after the appropriation year in which the document was processed through USAS. See 34 Texas Administrative Code, Section 5.51(e)(5)(A) (2013).

Recommendation/Requirement

Supporting documentation for a purchase document must be made available in an audit to justify the validity of the payment. The School must ensure adequate supporting documentation exists to verify proper billing and payment. Proper documentation of all purchases must be recorded and justified prior to ordering the goods or services. In addition, any changes to the purchase agreement must be properly dated and proactively approved.

A proprietary product or service is one that has a distinctive characteristic not shared by competing products or services. When the specification limits consideration to one manufacturer, one product or one service provider, the School must include a written Proprietary Purchase Justification in the procurement file.

The School must maintain all documentation necessary to support purchases made through the payment card program. For instance, for purchases not made at the vendor's place of business where a register receipt would have been provided at the time of sale, the School must maintain proper documentation of the purchase agreement prior to receipt of the invoice and documentation indicating receipt of the goods or service. See 34 Texas Administrative Code, Section 5.57(a)(1) (2013) for the requirements regarding payment card expenditures by state agencies. The School can use informal means to document its agreements with the vendor and receipt of the goods or services. Informal documentation can take the form of purchase logs, purchase requisitions, confirmation orders or emails that state the terms of the agreement.

School Response

We agree with the finding and recommendation.

DETAILED FINDINGS — PROMPT PAYMENT AND SCHEDULING

Payments Past the Prompt Payment Deadline and Payments Not Scheduled

Finding

Prompt Payment

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

The Comptroller's office computes and automatically pays any interest due under the prompt payment law when the Comptroller's office is responsible for paying the principal amount on behalf of the agency. See Texas Government Code Annotated, Section 2251.026 (Vernon 2008). During the audit period, the School paid vendors \$916.08 of prompt payment interest.

In our sample, we identified five purchase transactions, four travel transactions and one payment card transaction that were paid late with no interest paid to the vendors. We also noted one purchase transaction where interest was overpaid. The School entered the incorrect due dates into USAS, causing the system to forgo or incorrectly calculate interest on the principal amount. According to the School, these occurred due to oversights made when processing the payments.

Scheduling Payment

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 five purchase transactions, nine travel transactions and nine payment card transactions that were paid early, resulting in interest loss to the State Treasury. According to the School, these errors were due to oversight.

Recommendation/Requirement

The School must review its procedures to ensure it submits payment information for processing as well as releasing payments in a timely manner to avoid incurring interest liabilities. In addition, the School must verify that proper due dates are entered to ensure that, if interest is due, it is paid correctly to the vendors.

To minimize the loss of earned interest to the State Treasury, the School must schedule all payments greater than \$5,000.00 for the latest possible distribution date and in accordance with its purchasing agreements as described in [eXpendit – Prompt Payment](#) and [eXpendit – Payment Scheduling](#). The School can pay according to the terms on the invoice only if those terms are included in the purchase agreement.

School Response

We agree with the finding and recommendation.

DETAILED FINDINGS — EXPENDITURE APPROVAL

Control Weakness Over Expenditure Processing

Finding

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

The School has two employees with security to process and release payments in USAS and process and release payrolls without oversight. The same employees can also pick up warrants from the Comptroller's office and approve paper vouchers.

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

The School stated that this was necessary due to the limited number of accounting staff at the agency. However, the School is evaluating the processing procedures and will make changes to alleviate the segregation of duties.

We ran a report to determine whether any of the School's payment documents processed through USAS and USPS during the audit period because of the action of only one person. We found 450 USAS documents that were either entered and approved, or altered and approved, by the same person without another person's electronic oversight. These documents resulted in payments totaling \$218,506.06. Twelve of these documents were reviewed during the fieldwork phase of the audit and were determined to be valid expenditures.

Recommendation/Requirement

The School 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.

To strengthen internal controls and reduce risks to state funds, the School may request a preventative control be enforced for all 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. See [USAS Accounting and Payment Control \(FPP B.005\)](#).

School Response

We agree with the finding and recommendation.