

Fiscal Management Division
Expenditure Audit Section
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Post-Payment Audit of the Texas Veterans Commission



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Table of Contents

Executive Summary

Audit scope	i
Payroll transactions and deductions.....	i
Purchase transactions.....	i
Travel and non-overnight meals transactions.....	ii
Grant transactions	ii
Fixed assets	ii
Internal control structure	ii
Security	iii
Direct deposit authorization forms.....	iii
Prior post-payment audit and current audit recurring errors	iii

Detailed Findings — Purchase

Incorrect Purchasing/Procurement Processes.....	1
Procurement Plan or ‘No Change’ Letter Not Filed.....	4
Discount Not Taken.....	5
Duplicate Payment	6

Detailed Findings — Travel

Missing Documentation	7
Payments Past the Prompt Payment Deadline	8

Detailed Findings — Expenditure Approvals

Employees Retained Ability and Security to Expend Funds	
After Termination/Authority Expired	10
Control Weakness Over Expenditure Processing	12

EXECUTIVE SUMMARY

Audit scope

We audited a sample of the Texas Veterans Commission (Commission) payroll, purchase, travel and grant transactions that processed through the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS) during the period beginning Dec. 1, 2012, through Nov. 30, 2013, 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 contributions 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:

- Incorrect purchasing/procurement processes.
- Discount not taken.
- Procurement plan not filed.
- Duplicate payment.

Travel and non-overnight meals transactions

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

The audit identified:

- Missing documentation.
- Interest not paid.

Grant transactions

We conducted a limited review of grant transactions. This review consisted of verifying that payments did not exceed authorized amounts and followed contractual payment terms and conditions. We did not audit for compliance with procedures for awarding the grants or monitoring grantee compliance; therefore, we are not offering an opinion on those procedures.

- No issues were identified.

Fixed assets

The audit included a limited review of 13 fixed assets acquired by expenditures during the audit period to test for accurate reporting and to verify existence of the asset.

The audit identified:

- The State Property Accounting (SPA) System was not updated to reflect the reassignment of two assets. As a result of the audit, SPA was updated.

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:

- Five individuals who had the ability to process expenditures without oversight:
 - Three of the five individuals could adjust payment instructions in the Texas Identification Number System (TINS) and approve vouchers.
 - Three of the five individuals could process and release payrolls, and
 - One of the five individuals could pick up warrants from the Comptroller's office and approve vouchers.
- A non-employee who was designated by the Commission to approve expenditures.

Security

The audit included a security review to identify any of the 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 review identified:

- Two employees who remained listed on the Commission's voucher signature cards after termination.
- Two additional employees who retained the ability to expend funds in USAS after their authority expired.

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 review identified:

- Three transactions with outdated forms. The international payments verification section was missing.
- Two transactions missing the direct deposit form; therefore, we were unable to determine compliance.
- One transaction with an incomplete form. The international payment verification section was not completed.

The forms 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 the Commission's payroll, purchase and travel transactions was concluded on March 24, 2011.

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

- Payment scheduling.
- Control weakness over expenditure processing.
- Procurement plan not filed.

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DETAILED FINDINGS — PURCHASE

Incorrect Purchasing/Procurement Processes

Finding

Texas Procurement and Support Services (TPASS) Procurement Procedures Not Followed

The Commission purchased three separate economic impact studies under three different contracts to the same vendor, each costing \$5,000.00. During our audit, we noted that the studies were so closely related in scope that they should have been awarded as one contract for \$15,000.00. According to the Commission, it did not combine the three bids due to time constraints, which prevented following through with the whole procurement process. The Commission also states that it will conduct a training program to manage the execution of last-minute purchase requests at the end of the fiscal year so this finding does not happen again.

TPASS delegates to all state agencies the authority to purchase commodities whose estimated purchase price does not exceed \$25,000. If the commodity is \$5,000.00 or less, the competitive process is not required. However, if the commodity is \$5,000.01 through \$25,000.00, then the agency must use the competitive process by following the Open Market Informal Solicitation.

The [*State of Texas Procurement Manual, Section 2.7, Open Market Solicitations*](#), says: “An open market solicitation is used to purchase a good or service by soliciting from any available source. The open market solicitation procedure is authorized by Texas Government Code, Sections 2155.062(a)(3) and 2156.061. ... The open market procedure always includes a competitive solicitation process to ensure a truly competitive process and to provide an appropriate balance between administrative costs and potential savings.”

Bid and Evaluation Criteria Not Followed

The Commission did not have a specific evaluation criterion for selecting a hotel for the Commission’s fall conference. The Commission provided a tabulation created from the Request for Proposal (RFP) process that showed some of the key elements the Commission emphasized when soliciting hotels. There was no bid evaluation criteria nor predetermined value ranking assigned to any of those elements. The contract was awarded without bid tabulations or names of the people participating in the selection process, and the ranking process was left out. There is no certainty that the state received the best value regarding this contract. Because of the lack of specifics regarding the costing of this service, the monetary impact cannot be calculated.

The bid or proposal solicitation document is the first official evidence to the vendor community that an ordering entity intends to procure a good or service. The solicitation document serves as the official instructions explaining the ordering entity’s requirements and how the vendor(s) will be selected. It is imperative that the agency include terms

and conditions specific to the agency's solicitation, regardless of the type of solicitation document used. See 34 Texas Administrative Code, Section 20.35 (2013) and the *State of Texas Procurement Manual*, Section 2.7.

Missing the Centralized Master Bidder's List (CMBL) Solicitation Documentation

We identified one procurement transaction where the Commission failed to show the CMBL profile printout listing all eligible suppliers, dated prior to their respective contract awards. Furthermore, the Commission was unable to provide proof that CMBL vendors were actually solicited. The CMBL is a database of registered vendors who have provided contact information, as well as a list of the goods and services they offer. Vendors pay a nominal annual fee to receive notification of opportunities for solicited commodities and/or services through an Invitation for Bid, Request for Proposal, Request for Offer or Request for Qualifications. Unless exempted by law, the CMBL must be used for all procurements subject to TPASS procurement authority. The CMBL must also be used to gather information for noncompetitive procurement processes.

Agencies must print out the awarded vendor's CMBL profile showing the expiration date for file documentation. Proof that the CMBL system was checked prior to any award or contract renewal being made by state of Texas government entities must be obtained. See Texas Government Code, Sections 2155.263, 2155.264 (Vernon 2008) and 34 Texas Administrative Code, Section 20.34(g) (2013).

Missing Documentation of Excluded Parties List System (EPLS) Search

We identified four transactions where the Commission did not provide required EPLS printouts dated prior to its respective contract awards. According to the Commission, missing CMBL and EPLS printouts were an oversight based on time constraints of last-minute purchases. The Commission also states that its procurement section has established, in coordination with the budget analyst and the CFO, a timeline with department directors for purchase requests, which should prevent any future findings.

Agencies must not award contracts to vendors who have been barred from contracting by the federal government. The EPLS is the electronic database of the Lists of Parties Excluded from Federal Procurement and Non-procurement Programs that identified those vendors excluded throughout the U.S. government (unless otherwise noted) from receiving federal contracts or certain subcontracts and from certain types of Federal financial and non-financial assistance and benefits. EPLS has been replaced by the [System for Award Management \(SAM\)](#). The SAM system must be checked seven days prior to any award or contract renewal being made by state of Texas government entities.

See Texas Government Code, Section 2155.077 (Vernon 2008) and 34 Texas Administrative Code, Section 113.102(d)(8) (2013).

Recommendation/Requirement

Texas agencies are required to adhere to Texas Government Code, Section 2155.074 (Vernon 2009) to obtain the best value for the state agency. For a purchase of goods and services under this chapter, each state agency, including the Commission, shall purchase goods and services that provide the best value for the state. If the Commission desires to make a purchase, the Commission must go through the proper purchasing channels rather than circumventing the procedures.

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). Supporting documentation must be made available to and in the manner required by the Comptroller's office. 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).

In an effort to ensure adherence to the rules and laws that govern Texas' procurement practices, all agencies and institutions of higher education must utilize the CMBL for all purchases, including services, for which competitive bidding or competitive sealed proposals are required. A copy of the [CMBL](#) search results from the specified website must be used as evidence of the vendor search being performed by the agency and must be included in the contract file.

We recommend that the Commission conduct an EPLS search after bid tabulations. Because SAM may update these databases more than once in a 24-hour period, a final check of the Special Designated Nationals (SDN) listing must be made prior to any contract award to ensure the Commission does not award contracts to any person or vendor whose name appears on the SDN list. A copy of the SAM search results from the specified website must be used as evidence of the vendor search being performed by the agency and must be included in the contract file.

Commission Response

Texas Veterans Commission (TVC) agrees with the Purchasing/Procurement Findings and Recommendations. TVC will take an aggressive approach to ensure compliance with state purchasing/procurement guidance by providing schedule training to staff members for standardization and compliance with state purchasing/procurement rules.

Procurement Plan or ‘No Change’ Letter Not Filed

Finding

TPASS requires each agency to formulate an agency procurement plan that identifies the agency’s management controls and purchasing oversight authority. A procurement plan must be on file with TPASS 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 or “no change” letters are due to TPASS by Nov. 30 each year. This is a recurring finding from the previous audit. According to the Commission, adequate time and staff was not available to comply with the requirement. The Commission has created the document requested and it is currently being reviewed. Once approved, the document will be submitted to the Comptroller’s office as required.

Recommendation/Requirement

As required by the [State of Texas Procurement Manual, Section 1.3](#), and 34 Texas Administrative Code, Section 20.41 (h), the Commission must submit a procurement plan to the Comptroller’s office TPASS Division by Nov. 30 each year.

Commission Response

TVC agrees with the Finding and Recommendation to submit Procurement Plan in accordance with 34 Texas Administrative Code, Section 20.41 (h), and section 1.3 of the Procurement Manual, the Commission must submit a procurement plan to the Comptroller’s office TPASS Division by Nov. 30 each year.

Discount Not Taken

Finding

The Commission did not take advantage of a \$500.00 discount offered by another state agency. The invoice was received with ample time to process the payment and take advantage of the discount. According to the Commission, due to the high volume of purchases, the discount was overlooked. The Commission also stated that invoices will be reviewed more thoroughly to make sure the Commission takes advantage of any discounts in the future.

Texas Government Code Annotated, Section 2251.030(d) (Vernon 2008) states: “A state agency, when paying for goods or services purchased under an agreement that includes a prompt or early payment discount, shall submit the necessary payment documents or information to the Comptroller sufficiently in advance of the prompt or early payment deadline to allow the Comptroller or the agency to pay the vendor in time to obtain the discount.” When a prompt payment discount is available, it is the Commission’s responsibility to determine whether scheduling the payment or taking the discount is the greatest benefit for the state. In this case, the discount would yield a greater benefit than scheduling the payments.

Recommendation/Requirement

The Commission should review each invoice upon receipt to determine if it includes a discount. The Commission should compare the cost/benefits of early payment versus scheduling prior to processing the payment. If the Commission determines that the discount is most beneficial to the state, it should process the invoice promptly through the Commission’s payment process. If the discount is not beneficial to the state, the Commission should schedule the payment in accordance with Texas Government Code Annotated, Section 2155.382(d) (Vernon 2008). The Commission should retain documentation of the cost/benefit analysis in its files.

Commission Response

TVC agrees with Finding and Recommendation that it should review each invoice upon receipt to determine if it includes a discount. In addition, if the discount is not beneficial to the state, TVC should schedule the payment in accordance with Texas Government Code Annotated, Section 2155.382(d) (Vernon 2008).

Duplicate Payment

Finding

We ran a report to identify potential duplicate payments processed by the Commission for the audit period. During our review of this report with the Commission, we found one duplicate payment. The total amount of the overpayment was \$175.00. The Commission stated that before a payment is processed, the invoice is matched with the purchase order and the purchase voucher log to prevent duplication. However, this procedure was not followed when processing this payment. The vendor invoiced the Commission twice, in two different months, for the same amount. The Commission is working with the vendor to obtain a refund.

Recommendation/Requirement

The Commission must enhance its procedures to identify potential duplicate invoices to avoid making duplicate payments to vendors. The accounting staff should ensure that the invoice and payment are reconciled to prevent duplicate payments.

Commission Response

TVC agrees with the Finding and Recommendation to enhance its procedures to identify potential duplicate invoices to avoid making duplicate payments to vendors. TVC's accounting staff will ensure that the invoice and payment are reconciled to prevent duplicate payments.

DETAILED FINDINGS — TRAVEL

Missing Documentation

Finding

We noted one travel transaction missing the travel voucher and supporting documentation.

Without proper payment documentation, we could not determine whether the reimbursement was an accurate reflection of the expenses incurred by the travelers. According to the Commission, the previous travel accountant did not effectively maintain and retain the required documents. The new travel accountant has reorganized the file-room to prevent future misplacement of vouchers. The Commission was able to recreate the travel voucher.

For a state employee to be reimbursed for a lodging expense, the employee must provide proof of payment. See [Textravel – Lodging](#) receipt requirements.

Recommendation/Requirement

The Commission must ensure that employees' travel vouchers and payments to third parties include all necessary receipts and other documentation. Detailed item and pricing information must be documented and retained to verify proper billing and payment.

Commission Response

TVC agrees with the Finding and Recommendation that after processing a travel voucher, to immediately create a file with all of the necessary receipts and other supporting documentation in order to verify proper billing and payment in the secure file room.

Payments Past the Prompt Payment Deadline

Finding

According to the prompt payment law, Texas Government Code Annotated, Section 2251.021 (a) (Vernon 2012), 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.

We identified 25 direct billed travel transactions on five documents that were paid late without paying interest to the vendor. According to the Commission, a holiday during the payment period caused the payments to be processed late.

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 (a)(e) (Vernon 2012).

According to [eXpendit – Payment Due Date and Requested Payment Date](#):

- Agencies must determine the Payment Due Date for each payment transaction and submit the date in the required field. This requirement includes all non-payroll payment transactions even if the payment is not subject to the prompt payment law.
- USAS uses the Payment Due Date to determine when to liquidate a payment so that it will be distributed at the latest possible time without being late, and to determine how much interest, if any, is due to the vendor.
- If a payment is subject to the prompt payment law, do NOT adjust the Payment Due Date to make an early (or late) payment.
- A Requested Payment Date must be submitted if the payment needs to be distributed before (or after) the Payment Due Date.
- It is not necessary to submit a Requested Payment Date if the Payment Due Date falls on a weekend or holiday when payment distribution does not occur.
- USAS automatically schedules payments based on the latest possible distribution date.
- If your agency submits a Requested Payment Date and a Payment Due Date on a transaction, then the Requested Payment Date will prevail as the date USAS uses to schedule the payment for distribution.

It is the Commission's responsibility to enter the payment in time to avoid paying interest. Also, the Commission cannot refuse to pay interest because of a holiday.

Recommendation/Requirement

The Commission must ensure that invoices are entered and payment information is submitted for processing in a timely manner to avoid incurring interest liabilities.

Commission Response

TVC agrees with the Findings and Recommendations. Due to turnover within the Travel Accounting section, TVC has ensured state training has been acquired and reviewed with the Travel Accountant. In addition, TVC accountant staff will assist with training other staff sections to ensure all personnel understand the prompt payment law, Texas Government Code Annotated, Section 2251.021 (a) (Vernon 2012), that invoices are entered and payment information is submitted for processing in a timely manner to avoid incurring interest liabilities.

DETAILED FINDINGS — EXPENDITURE APPROVALS

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

Finding

During the audit period, the Commission failed to notify the Comptroller's office about the termination of two employees who had been designated by the Commission to approve its expenditures. The employees remained listed on the Commission's voucher signature cards for 113 and 10 days, respectively, after their authority expired. This means that the former employees could have approved vouchers that were submitted to the Comptroller's office on paper during that time. Any payment produced by a paper voucher that was approved by the terminated employee would have constituted an unapproved expenditure. One of the two employees and another employee maintained their USAS security for 407 days and 10 days, respectively, after their authority expired, allowing the employees the ability to approve electronic vouchers during that time. According to the Commission, the employee remained on the signature card and USAS security because of the lack of synchronization between its Human Resources and Security sections. Both sections now understand the requirements.

The formal rule of the Comptroller's office pertaining to designating individuals to approve agency expenditures and revoking those designations was in effect during the audit period. 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 emails, faxes, letters, memos or other writings as long as the writings indicate 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 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).

We also noted that an individual who was not employed by the Commission was designated to approve expenditures. According to the Commission, the security manager inadvertently used the wrong memorandum which gave the non-employee authority to approve expenditures. The non-employee duties included data entry only but not release capabilities.

An individual who is not employed by a state agency may not be designated to approve a state agency's payments. See 34 Texas Administrative Code, Section 5.61(e)(2) (2013).

Recommendation/Requirement

The Commission must ensure compliance with the preceding requirements. The Commission must also ensure that the person responsible for sending these notifications to the Comptroller's office is aware of the designated employee's termination on or before the date the termination becomes effective and follow through with the Comptroller's office to ensure the receipt of the notification and that the revocation occurred. The Commission should also review its controls to ensure that non-employees are not designated to approve expenditures.

Commission Response

TVC agrees with the Findings and Recommendations that coordination between Human Resources and Security Manager to ensure that termination of employees is shared between the two offices. TVC Security Manager will send notification to the Comptroller's office of the designated employee's termination on or before the date the termination becomes effective and follow through with the Comptroller's office to ensure the receipt of the notification and that the revocation occurred. TVC will also review its internal controls to ensure that non-employees (contractors) are not designated to approve expenditures.

Control Weakness Over Expenditure Processing

Finding

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

We noted that five employees had the security to perform multiple expenditure approval tasks without oversight.

Specifically:

- Three of the five employees could adjust payment instructions in TINS and approve vouchers
- Three of the five employees could process and release payrolls
- One of the five employee could pick up warrants from the Comptroller's office and approve 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.

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.

Commission Response

TVC agrees with the Findings and Recommendations that controls over expenditure processing and segregate each task to the extent possible to ensure that no individual is able to process payments without oversight. As of this date, there have been no reported incidents of this occurring with the agency. TVC will review the segregation of duties and tasks to ensure strict adherence to not comingle or overlap authority of processing transactions.