

Fiscal Management Division
Statewide Fiscal Services Dept.
Expenditure Audit Section
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Post-Payment Audit of the Texas Department of Insurance



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EXECUTIVE SUMMARY

Audit scope

We audited a sample of the Texas Department of Insurance (Department) 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, 2013, through Nov, 31, 2014, to determine compliance with applicable state laws.

The Department received appendices with the 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 Department should implement the recommendations listed in the Detailed Findings of this report. It is the Department's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the Department's documents comply in the future. The Department must ensure that the findings discussed in this report are resolved.

Texas law requires the Texas Comptroller of Public Accounts (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 payroll 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 and revenue refunds

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

The audit identified:

- Purchase orders (POs) created after invoice.
- Training expenses not payable.
- Missing procurement process documentation.

In addition, during our audit we observed that the Department received the Texas Procurement and Support Service (TPASS) delegation authority to enter into a Spanish interpreter contract. The contract was amended several times and the current agreement exceeds the original TPASS delegated amount by more than 20 percent. TPASS suggests that agencies rebid contracts which exceed the original estimated contract amount by 20 percent. The Department explained that it could not correctly anticipate the need for the interpreter service at the time of contract solicitation; therefore, all contract amendments are solely due to an unexpected increase in number of cases requiring interpreter services.

Travel transactions

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

The audit identified:

- Lack of conservation of state funds.

Travel card transactions

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

The audit identified:

- Unauthorized use of state-issued travel card.

Fixed assets

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

- No issues were identified.

During the audit period, the Department reported one stolen and one missing asset and filed a police report for the stolen asset. The two assets had a combined net book value of \$746.26.

Security

The audit included a security review to identify any of the Department'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.

- No issues were identified.

Internal control structure

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

- No issues were identified.

Direct deposit authorization forms

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

The review identified:

- Two vendors who did not have the direct deposit authorization form featuring the International Payments Verification section as required by the National Automated Clearing House Association rules.

Prior post-payment audit and current audit recurring findings

A prior post-payment audit of the Department's payroll, purchase and travel transactions was concluded on July 25, 2011.

During the current audit, we did not identify any recurring findings.

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DETAILED FINDINGS — PURCHASE

Purchase Orders Created After Invoice

Finding

We identified two purchase transactions where the Department created purchase orders (POs) after the invoice was received. The Department stated it was an oversight.

With no PO issued to the vendor at the time the goods were ordered, it was difficult for the Department to ensure that it was not overcharged or billed for goods or services beyond those the Department agreed to purchase.

According to 34 Texas Administrative Code, Section 5.51(c)(1)(D), it is the responsibility of the state agency and its officers 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.”

Recommendation/Requirement

While a formal purchase agreement is not always required, documentation of the agreement must be prepared at the time the goods or services are ordered from the vendor. Once the Department has made a final approved agreement with the vendor, the Department 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 Department.

Department Response

The Department agrees with this recommendation.

One of the transactions identified in this audit was a result of an unauthorized employee committing to a purchase. The other transaction was due to an authorized purchaser failing to process a purchase requisition in a timely fashion.

Department policy allows only designated staff to purchase goods or services. Policy further states: “Other employees are strictly prohibited from entering into, verbally committing or signing any type of agreement, purchase order, or other document that appears to bind or obligate TDI. Likewise, other employees are strictly prohibited from making any type of purchase on behalf of TDI.”

Process controls have been put in place to monitor purchaser workloads to ensure timely processing of requisitions. Processes are also in place to require a written explanation and approval from the Chief of Staff when a purchase order is necessary after the fact due to employee error.

Training Expense Not Payable

Finding

We identified one payment lacking the documentation necessary to verify that the Department's employee attended training.

The Department stated that the employee did not attend the training and did not notify the agency or the vendor that he would not attend it or provide a valid justification for not attending. As a result, the vendor sent an invoice and the Department felt obligated to pay for the cost of training. The Department did not seek a refund from the employee for the unattended training even though the employee failed to provide a valid justification for missing the training.

Proper supporting documentation for a purchase must be maintained or available at least until the end of the second appropriation year after the appropriation year in which the document was processed by USAS. See 34 Texas Administrative Code, Section 5.51(e)(5)(A).

Supporting documentation must be made available to the Comptroller's office in the manner required by the Comptroller's office. See 34 Texas Administrative Code, Section 5.51(e)(2)-(4).

Recommendation/Requirement

The Department should enhance its internal procedures to make sure that verification of training attendance is documented and make the supporting documentation available during the audit to justify the validity of the payment. The Department must obtain a reimbursement from the employee unless it determines it is not cost effective to do so.

Department Response

The Department agrees with this recommendation. The Department decided not to seek reimbursement from the individual due to agency policy at the time of the training.

The Department is incorporating changes to its policy manual and procedures to prevent this event from occurring in the future.

Missing Procurement Process Documentation

Finding

We reviewed two transactions related to the same purchase contract where the Department could not provide the documentation necessary to support its procurement process. The Department was unable to provide proof that Centralized Master's Bidders List (CMBL) vendors were solicited, or provide the corresponding vendor responses or bid tabulations necessary to support the contracted vendor's selection. The Department stated it was unaware that these documents were missing from the contract file.

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 maintained. See Texas Government Code, Sections 2155.263 and 2155.264, and 34 Texas Administrative Code, Section 20.34(g).

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, and the [State of Texas Procurement Manual](#), Section 2.7.

Recommendation/Requirement

To ensure adherence to the rules and laws that govern Texas' procurement practices, all agencies and institutions of higher education must use the CMBL for all purchases, including services for which competitive bidding or competitive sealed proposals are required. The Department must maintain evidence that the CMBL vendors were contacted and include it in the contract file, as well as the bid tabulation that supports the contracted vendor selection.

Department Response

The Department agrees with this recommendation. The lead purchaser now reviews files on a sampling basis to ensure that all required documentation is present. Evidence that CMBL vendors were contacted has also been added as an item on the purchase file checklist used to assist purchasers in determining required documentation.

DETAILED FINDINGS — TRAVEL

Lack of Conservation of State Funds

Finding

We reviewed three different travel transactions where the Department could have conserved state funds:

- In one instance, the Department employee drove a personal car when renting a vehicle would have been more cost effective. The Department stated that it regularly prepares personal versus rental cost analysis, but in this instance it failed to do so.
- Another transaction reimbursed an employee for the cost of airfare that could have been lower had the State's awarded city-pair fare been used. These city-pairs provide maximum flexibility in traveling as fares are not subject to restrictions or penalties on last minute, refundable tickets.
- The last transaction reimbursed an employee for the cost of an overnight stay at a hotel that was on the state contract, but the traveler failed to request the contracted state rate. The Department stated that at times, employees make their own airfare and hotel reservations and that, in both instances, it was an oversight.

According to Texas Government Code, Section 660.007(a), 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

Prior to authorizing travel, the Department must closely review the traveler's request to ensure compliance with the above travel regulations and ensure that only eligible expenses are reimbursed to employees. The Department must seek a reimbursement from the employee unless it determines it is not cost effective to do so. The Department should also consider providing travel training for its employees who travel.

Department Response

The Department agrees with this recommendation. The Department took immediate action and enhanced travel training to include an emphasis on the least cost worksheet, and contracted rates for lodging and airfare. The Department has determined due to the small dollar amount that it is not cost effective to seek reimbursement for the overpayment.

Unauthorized Use of State-Issued Travel Card

Finding

During our review of travel card expenditures, we identified one instance where an employee used the state-issued travel card to purchase personal items. The Department indicated that its internal procedures require monitoring of expenditures made with the state-issued credit card, but in this instance its review did not detect the purchase of personal items. The Department stated it would modify its monitoring process to ensure personal transactions do not occur in the future.

According to 34 Texas Administrative Code, Section 20.308(d)(2), the state agencies shall cancel a state-issued travel credit card when the employee:

- Fails to timely pay the charges,
- Uses the card for personal transactions, or
- Is responsible for any other misuse of the credit card.

Recommendation/Requirement

The Department must ensure that all state-issued travel card transactions are properly reviewed. In addition, the Department must ensure that its travel cards are used in accordance with applicable rules and requirements. The current state credit card administrator, Citibank, offers reports that can assist the Department in monitoring employee credit card usage. The Department should consider offering periodic training to its credit card holders on proper use of state-issued credit cards.

Department Response

The Department agrees with this recommendation. The Department took immediate action and enhanced travel training to include an emphasis on proper use of the state issued travel credit card. In addition to additional training for travelers and accounts payable staff, the Department enhanced its monitoring of state-issued travel credit card transactions.

DETAILED FINDINGS — EXPENDITURE APPROVALS

Incorrect Direct Deposit Authorization Forms

Finding

We conducted a review of the Department's procedures to comply with the federal mandate to properly identify and handle payments involving the movement of funds internationally. Out of the ten transactions selected and reviewed, two did not have the direct deposit form on file. Without a current and properly completed form on file, the Department was unable to determine whether state funds were forwarded to a financial institution outside the United States.

International Automated Clearing House transactions (IATs) are destined for a financial institution outside of the territory of the United States. Because of federal requirements mandated by the Office of Foreign Assets Control (OFAC), the National Automated Clearing House Association (NACHA) has adopted specific rules on the identification and processing of these types of direct deposit payments.

To avoid federal penalties, each state agency must:

- Show due diligence in the processing of all direct deposit payments.
- Do its best to ensure direct deposit payments it issues to accounts at U.S. financial institutions are not ultimately being transferred to financial institutions outside of the U.S.

The Department stated that it was an oversight and during the fieldwork, the Department obtained properly completed direct deposit forms.

Recommendation/Requirement

The Department must ensure that all payees that request payment by direct deposit provide the appropriate direct deposit authorization form, with the IAT question answered and the form signed. A direct deposit authorization form should not be processed if the IAT section is left blank or the form is unsigned or missing.

Department Response

The Department agrees with this recommendation. The Department implemented a new process for handling supplier forms including the direct deposit form on Sept. 1, 2014. This new process allows for uploading electronic versions of all forms for new suppliers and supplier maintenance. The forms for new suppliers and supplier changes are now uploaded into the Centralized Accounting Payroll Personnel System (CAPPS). CAPPS allows for secure access to this data. This process change has corrected this audit issue.