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Statewide Fiscal Services Dept.
Expenditure Audit Section
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Post-Payment Audit of the State Office of Administrative Hearings



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EXECUTIVE SUMMARY

Audit scope

We audited a sample of the State Office of Administrative Hearings (Office) 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. 30, 2014, to determine compliance with applicable state laws.

The Office 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 Office should implement the recommendations listed in the Detailed Findings of this report. It is the Office'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 Office's documents comply in the future. The Office 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.

The audit identified:

- Three personnel files missing prior state service forms, resulting in incorrect longevity payment amounts.

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:

- Two contracts missing the Centralized Master Bidders List (CMBL) solicitation printout.
- One contract that did not abide by the correct records retention schedule.
- One transaction that failed to post to the Electronic State Business Daily (ESBD).

Travel transactions

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

The audit identified:

- Two instances where employees did not consider conservation of state funds.
- One instance of airfare overpayment.

Security

The audit included a security review that entailed identifying any of the Office'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

As part of our planning process for the post-payment audit, we reviewed certain limitations that the Office placed on its accounting staff members' abilities to process expenditures. We reviewed the Office's security in USAS, USPS, the Texas Identification Number System (TINS) and voucher signature cards that were in effect on Jan. 28, 2014.

The review identified:

- One employee who could pick up warrants from the Comptroller's office and approve paper vouchers.

Prior post-payment audit and current audit recurring findings

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

During the current audit, the following recurring finding was identified:

- Control weakness over expenditure processing.

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DETAILED FINDINGS — PAYROLL

Missing Prior State Service Forms / Longevity Payment Amounts Incorrect

Finding

We identified three employees who were paid incorrect amounts of longevity pay based on incorrect state effective service dates in USPS. Two employees noted prior state employment on their resumés, which was not verified at the time of initial employment. The Office sent verification forms to the agencies listed on the resumés to verify if the dates of employment were valid. The agencies confirmed that the prior employment was valid. The Office entered the dates in USPS, which modified the state service date, resulting in longevity underpayments totaling \$500.00.

While reviewing the third employee's personnel file, we found two verification forms that confirmed prior state employment at the same agency for the identical dates of employment. One verification form listed one month of leave without pay (LWOP) and the other form did not.

The Office sent a verification form to the state agency and requested that it reverify the prior state employment to determine if the LWOP was valid. The agency confirmed that the employee went on LWOP for a full calendar month.

The Office entered the LWOP dates in USPS, which modified the state service date, resulting in a longevity overpayment of \$120.00. An employee who is on leave without pay for an entire calendar month does not accrue lifetime service credit for that month. See Texas Government Code, Chapter 659.046(b).

Prior state service documentation is necessary to verify the employees' state service and the accuracy of longevity payments. Agencies are required to maintain specific documentation to support the legality, propriety and fiscal responsibility of each payment made out of the agency's funds. The Comptroller's office may require documentation be made available during a post-payment audit, a pre-payment audit or at any other time.

See [Texas Payroll/Personnel Resource – Required Documentation](#).

The schedule is not included with this report for confidentiality purposes.

Recommendation/Requirement

The Office must compensate employees that were underpaid longevity pay. The Office should correct underpayments through a supplemental payroll. See Texas Administrative Code, Title 34, Section 5.40(c). The Office should also consider recovering the incorrect longevity overpayment from the employee in accordance with Texas Government Code, Chapter 666.

The Office should review each resumé and/or job application for all current and new employees to ensure that all prior state service is properly verified and documented. The Office's internal operating procedures must include quality control measures to identify all prior state service indicated by an employee.

Office Response

The State Office of Administrative Hearings (SOAH) Human Resources procedures include verification of all prior state service of its employees. A detailed form requesting the employee list all prior state service, specifically mentioning time worked at a state university, is completed by all new employees. Applications are also reviewed to identify information that the employee may have omitted.

Both employees were compensated for their unpaid longevity in a supplemental payroll that paid on June 2, 2015. Miscellaneous claim forms were also processed for the employees, and they received payment for longevity due prior to fiscal year 2013 through these miscellaneous claims.

The overpayment of longevity to an employee who was found to have been on leave without pay for an entire month at a previous agency has been recouped.

SOAH Human Resources will continue to diligently work to identify employees who may not have listed time with state universities on their original state service verification forms.

DETAILED FINDINGS — PURCHASE

Missing Centralized Master Bidders List Solicitation / Incorrect Record Retention

Finding

The Office failed to provide the Centralized Master Bidders List (CMBL) profile printout listing all eligible suppliers dated prior to their respective awards on two contracts. The Office was unable to provide proof that CMBL vendors were actually solicited for the procurement processes. In one case, according to the agency, the original contract file containing the CMBL printout was sent to the Texas State Library and Archives Commission (Commission) even though the contract had been renewed through the end of fiscal 2014. The Commission destroyed the archived file in accordance to its own policy, not knowing about the contract's renewal; consequently, the printout was not provided for the auditor's review. The agency cited oversight as the cause of the other missing printouts.

The CMBL is a database of registered vendors that includes contact information and a list of the goods and services each offers. 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 Texas Procurement and Support Services (TPASS) authority. The CMBL must also be used to gather information for noncompetitive procurement processes and vendor performance data. Agencies must print out the awarded vendor's CMBL profile showing the expiration date for file documentation. See the [State of Texas Procurement Manual](#) – The Procurement Cycle / CMBL. 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, Section 2155.263-2155.264 and Texas Administrative Code, Title 34, Section 20.34(g).

Contracts must be retained for seven years after the expiration or termination of the instrument according to its terms. See Texas Government Code, Section 441.1855 and [Contract Management Guide](#) – The Contract Administration File.

Recommendation/Requirement

The Office must utilize the CMBL as required to ensure adherence to the rules and laws that govern Texas procurement and contract management practices. A copy of the CMBL solicitation results must be retained as evidence of the vendor search being performed and must be included in the contract file. Keeping one complete master contract file will provide a basis for settling claims and disputes should they arise in administrative or court actions. Agencies should maintain an original of all contracts on file in a central repository.

Office Response

SOAH referenced the CMBL as required, but failed to print the proof as a hard copy for the file. SOAH has corrected the process and will now retain proof of compliance in the file.

Comptroller Response

The record retention period has been extended from four to seven years. Also, when the original version of a contract is renewed, it is still considered to be an active contract. Consequently, the Office must retain all of the original contract documentation along with all addendums and subsequent renewals for seven years after the contract expires.

Failure to Post to Electronic State Business Daily

Finding

The Office failed to post a solicitation notice using the Electronic State Business Daily (ESBD) online database on one contract exceeding \$25,000.00 due to oversight.

Texas Administrative Code, Title 34, Sections 20.204 and 20.207, require state agencies to either advertise notices of procurement solicitations for 14 days using the ESBD Texas marketplace or post the entire bid and proposal packages on the ESBD online database for 21 days. In accordance with Texas Government Code, Section 2155.083, and Texas Administrative Code, Title 34, Section 20.212, the requirement to advertise solicitations by posting on the ESBD applies to all purchases exceeding \$25,000.00 regardless of source of funds used for the acquisition. This requirement includes delegated purchases, emergency, construction projects, professional or consulting services, proprietary purchases or purchases exempt from TPASS purchasing authority. Minimum posting times do not apply to emergency procurements, internal repairs or multiple award schedule contract purchases.

See the [State of Texas Procurement Manual](#) – The Procurement Cycle / Process / Solicitation Advertisement Requirements – ESBD.

Recommendation/Requirement

Any service contract over \$25,000.00 must be posted for the proper duration. Failure to display a qualifying purchase for the mandatory duration of time could void the entire contract.

Office Response

SOAH posted the solicitation on the ESBD, but due to a record retention error, the paper printout as proof of compliance had been destroyed. The SOAH purchaser will follow all record retention requirements.

DETAILED FINDINGS — TRAVEL

Lack of Conservation of State Funds

Finding

The audit identified two instances where the Office did not take into consideration the conservation of state funds. The Office reimbursed two employees for personal car mileage expenses for work-related activities, but did not complete a cost analysis prior to the trip to determine a lower cost alternative due to omission. The auditor conducted a cost-saving analysis for these trips and found that the cost of a rental vehicle would have been less than the amount reimbursed to the employees by \$107.76 or 42 percent and \$147.49 or 45 percent, respectively.

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

The Office should develop and implement a process to ensure that each travel arrangement is the most cost effective considering all relevant circumstances. The process should include internal policies that instruct employees who travel to identify and use cost-saving options when making travel arrangements.

Office Response

Effective September 1, 2015, SOAH has rewritten its travel policy to provide explicit guidance to the travelers. In addition, SOAH had Comptroller’s office, Fiscal Management Division staff train SOAH’s travel coordinators and review SOAH’s rewritten travel policy for compliance.

Overpayment of Airfare

Finding

We identified a travel transaction missing the documentation needed to determine whether the reimbursement was correct.

The Office used the payment card to pay an employee's airfare to attend a conference. While at the conference, the employee purchased a flight to return two days early. The Office reimbursed the employee for the airfare expense incurred due to oversight.

During audit fieldwork, we were able to verify that a credit was applied to the payment card for a portion of the return flight the Office originally paid. However, the Office could not provide documentation to verify that the remaining portion of the cost of the return flight was credited to the payment card or applied to another airfare expense.

According to the Office, the remaining portion of the return flight was overpaid to the payment card, but it was possible the amount was applied to another flight. The Office stated that the format of the payment card statements makes reconciliations difficult to discern.

Without proper payment documentation, we could not determine whether overpayments were credited to the payment card. Proper documentation must be maintained to verify that the payments are valid as well as to maintain a proper audit trail.

As provided by Texas Administrative Code, Title 34, Section 5.51(c)(1)(D), 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."

Recommendation/Requirement

The Office must ensure that it has adequate supporting documentation for all payment card transactions and that supporting documentation must be made available during the audit to justify the validity of the payment. The Office must not make a payment without having adequate supporting documentation. The Office must ensure that employees' travel vouchers and payments to third parties include all necessary receipts and other documentation. Credits must be documented and retained to verify proper billing and payment.

Office Response

The employee was appropriately reimbursed for the emergency return flight. The possible overpayment was caused by a notation made by the former SOAH program administrator on the payment vendor invoice. As a part of the 2015 travel policy revision, SOAH requested a change in the program administrator's contacts with the payment card vendor to allow an employee in the fiscal department to discuss any SOAH invoice with the payment card vendor. The travel policy has been revised effective September 1, 2015 and staff has attended CPA travel voucher training.

DETAILED FINDINGS — EXPENDITURE APPROVALS

Control Weakness Over Expenditure Processing

Finding

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

During the audit period, the Office had one employee who could pick up warrants from the Comptroller's office and approve paper vouchers without oversight due to omission. We ran a report to determine whether any of the Office's payment documents processed through USAS or USPS during the audit period because of the action of only one individual. The report did not identify any expenditures that were processed without oversight.

In order to reduce risks to state funds, the Office should maintain controls over expenditure processing that segregate each accounting task to the greatest extent practical. Ideally, no individual should be able to process accounting transactions within the statewide financial systems without another person's involvement.

Recommendation/Requirement

The Office should continue to 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 Office should request that a preventative control be enforced for all of its 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.

See [USAS Accounting and Payment Control \(FPP B.005\)](#) about reducing risk to state funds.

Office Response

Paper warrants are delivered daily to SOAH by the CPA's courier. SOAH has a limited number of employees available to pick up warrants and has segregated each task to the extent possible. SOAH employees are systematically prevented from both processing payments and releasing their own batch in USAS and USPS. The employee referenced in the finding who was able to release payments in USAS and pick up paper warrants from the CPA if needed did not have access rights to create any payment vouchers in USAS. The USAS controls in place provide the necessary oversight. No action is needed on this finding since the controls recommended were already in place at the time of the audit, and there was no evidence of expenditures processed without oversight.

Comptroller Response

Although the employee does not have access to create payment vouchers in USAS, the employee can still create and approve a paper voucher, and pick up the warrant from the Comptroller's office without oversight. The risk still exists; therefore, we recommend the University segregate these functions.