

Fiscal Management Division  
Statewide Fiscal Services Dept.  
Expenditure Audit Section  
Auditor: Eunice Miranda

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# Post-Payment Audit of the Texas Health and Human Services Commission



Glenn Hegar  
Texas Comptroller of Public Accounts

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## EXECUTIVE SUMMARY

### Audit scope

We audited a sample of the Texas Health and Human Services Commission (Commission) payroll, purchase and travel transactions that processed through the Uniform Statewide Accounting System (USAS), the Standardized Payroll/Personnel Reporting System (SPRS), and the Centralized Accounting & Payroll/Personnel System (CAPPS) during the period beginning March 1, 2014, through Feb. 28, 2015, to determine compliance with applicable state laws.

The Commission 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 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 Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), 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 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:

- Incorrect longevity payment amount/missing documentation.

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:

- Duplicate payments.
- Freight not on purchase order.
- Missing purchase order.
- Procurement process not utilized.
- Purchase order improperly changed.
- Texas Correctional Industries (TCI) waiver not utilized or obtained in timely manner.

In April 2015, the State Auditor's Office (SAO) issued an investigative report titled "The Health and Human Services Commission's and the Office of Inspector General's (OIG) Procurement of Services and Commodities from 21CT, Inc., SAO Audit #15-031." The report stated that operational defects at the Commission and the OIG, combined with issues in the State's Cooperative Contracts program, enabled the Commission and the OIG to procure fraud detection services from 21CT without following proper procurement procedures. Since the SAO previously performed this review, the contract was not in the scope of our audit.

In December 2014, the SAO issued an audit report titled "Telecommunications Managed Services Contract at the Health and Human Services Commission, SAO Audit #15-017." The report stated that the Commission did not adequately monitor and enforce the terms of the contract or adequately review payments for AT&T Global Services. Since the SAO previously performed this review, the AT&T Global Services contract was not in the scope of our audit.

### Grant/rebates/retirement transactions

A limited review of the Commissions's transactions relating to grants payments and disbursements was conducted as a part of our purchase sample. This review consisted of verifying that payments did not exceed authorized amounts. The review of these payments did not include an investigation of the Commissions's procedures for awarding grants or monitoring payments made to the payees; therefore, no opinion is being offered on those procedures.

- No issues were identified.

### Refund of revenue transactions

The audit included a limited review of the Commission's transactions relating to refunds of revenue. These reviews consisted of verifying that the documentation provided reconciled with the payment amount in our sample.

- No issues were identified.

### Payment/travel card transactions

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

The audit identified:

- Incorrect processing of third-party transactions.
- Violations of warrant hold statutes.
- Term contracts not utilized.
- Improper payment of state sales taxes.
- Loss to payment card rebate program.
- Unauthorized use of state-issued travel card.

### Travel transactions

Travel transactions were audited for compliance with the GAA, [Textravel](#) and other pertinent statutes. Our review identified minimal audit findings which were discussed during our exit conference meeting.

The audit identified:

- Lack of conservation of state funds.
- Improper processing of travel advance account interest.
- Missing documentation.

### Prompt payment law and scheduling rules

The Commission's compliance with the prompt payment law and scheduling rules was audited. During the audit period, the Commission paid \$115,769.72 for prompt payment interest to its vendors.

The audit identified:

- Prompt payment and payment scheduling issues.

### Security

The audit included a security review to identify any of the Commission's employees with security in USAS, SPRS 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:

- One employee who retained the security to expend funds after termination/authority expired.
- One employee's Confidential Treatment of Information Acknowledgement (CTIA) form was missing.

## 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:

- Two employees had the ability to adjust payment instructions in TINS and also approve paper vouchers.
- Four employees who could pick up warrants from the Comptroller's office and approve paper vouchers.

## Fixed assets

The audit included a review of 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. During the audit period, the Commission had six stolen and 19 missing assets reported to SPA with a net book value of \$1,746.56.

- All assets tested were in their intended location and properly recorded in SPA.
- The Commission filed police reports for the six stolen items at the time of incidents. Copies of the reports were obtained as a result of the audit.

Summary of the auditor's findings are summarized in Table 1.

**TABLE 1: SUMMARY OF FINDINGS**

Findings & Error Schedules	Findings	Amount of Finding
Appendix 1 – Group 1	Incorrect Longevity Pay	\$2,060.00
Outside of Audit Sample	Duplicate Payments	\$13,131.86
Appendix 2	Freight Not on Original Purchase Order	\$22,309.38
	Missing Purchase Order	\$330.00
	Procurement Process not Utilized	\$22,182.23
	Purchase Order Improperly Changed	\$44,234.45
Outside of Audit Sample	Incorrect Processing of Third-Party Transactions	\$114,451.27
Appendix 3	Violation of Warrant Hold Statutes	\$3,294.00
	Term Contract Not Utilized	\$803.81
	Improper Payment of Sales Tax	\$10.22
Outside of Audit Sample	Loss to the State Rebate Program for outstanding Balance	\$154,289.91
Outside of Audit Sample	Unauthorized Use of State-Issued Travel Card	\$7,726.82
Appendix 4	Lack of Conservation of State Funds	\$3,062.26
	Missing Travel Documentation	\$3,270.62
Outside of Audit Sample	Improper Processing of Travel Advance Account Interest	\$1,146.80
Outside of Audit Sample	Missing Credit Card charges supporting Documentation	\$231.67
Appendix 5	Interest Lost to The Treasury	\$468.15
Appendix 6	Late Payments, But no Interest Paid to Vendors	\$7,355.48
Appendix 7	Overpayment of Interest	\$5,929.96
Appendix 8	Under Payment of Interest	\$1,382.57

<b>Total</b>	<b>\$407,671.46</b>
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### Prior post-payment audit and current audit recurring findings

A prior post-payment audit of the Commission's payroll, purchase and travel transactions was concluded on Feb. 9, 2012.

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

- Control weakness over expenditure processing.
- Incorrect longevity.
- Missing purchase order.
- Duplicate payments.
- Term contract not utilized.
- Violations of warrant hold statues.
- Prompt payment and payment scheduling errors.

### Other observations

During our audit, we found that the Commission awarded emergency agreement no. 529-14-0125-00001 to Accenture LLP for the Medicaid/Children with Special Health Care Needs Services Program Claims Processing and Pharmacy Claims and Rebate. The emergency agreement was awarded to Accenture LLP without following the procurement process because the Commission determined that the interruption of services to clients would constitute an immediate threat to public health or safety and may create imminent risk of loss to the Commission. The agreement was based on an emergency justification, which would allow the continuance of services with an initial term of not less than three years, with two optional one-year extensions. During fieldwork, we were notified that the Commission had initiated the procurement process for the emergency agreement where the terms had been separated into three different programs.

#### Contact:

Eunice Miranda  
512-463-2738

#### Contributing Auditors:

Derik Montique, MBA, CFE  
Anna Calzada  
Elizabeth Hanke  
Aleks Nećak, MBA, CTP  
Waleska Carlin, CGAP  
Raymond McClintock  
Melissa Hernandez, CTCM, CTPM



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## DETAILED FINDINGS — PAYROLL

### Incorrect Longevity Payment/Missing Documentation

#### Finding

In our audit of payroll transactions, we identified four incorrect longevity payment amounts, two instances where the Commission had incorrect service dates entered in CAPPs, and one missing prior state service verification.

### Incorrect Longevity Pay Amount

We identified one employee file that included evidence of prior state service in the employee's job application. The Commission processed an adjustment to correct the underpayment of the employee's longevity. The Commission did not maintain the necessary documents to support its calculation; therefore, the adjustment amount could not be verified.

One employee had a current amount of longevity paid incorrectly. The employee's state job application indicated possible prior state service and the Commission obtained the prior state service verification forms (PSSV). As a result, the Commission attempted to correct the employee's longevity underpayment based on the prior service records, but did not calculate the employee's new state effective service date correctly. While entering the prior service dates in CAPPs, the Commission omitted entering one period, which resulted in an incorrect calculation of the employee's state effective service date. The Commission processed two longevity underpayments, one from the available General Appropriations and one through the Miscellaneous Claims at the Comptroller's office trying to correct the error. Due to the incorrect calculation of state effective service date, the employee did not receive the full amount of the longevity underpayment. According to our calculations, this employee is still owed \$120.

One employee made a request for verification of prior state service. The Commission requested and obtained the PSSV form and based on the new creditable state service, correctly calculated the employee's new effective state service date, and processed a payment from the available agency funds. However, the Commission's calculation was different from the reimbursement amount. Based on our calculations, the total amount of longevity pay still owed to this employee is \$1,800. This payment will need to be processed through Miscellaneous Claims.

We identified one employee whose prior state service dates were not correctly entered in CAPPs, which resulted in the employee being credited for additional state service. This error resulted in an overpayment of longevity pay to the employee of \$140.

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](#).

## Dates in CAPPs Incorrect/Longevity Pay Correct

We identified two employees whose creditable state employment service dates as stated on the PSSV forms were incorrectly entered in CAPPs. However, the number of creditable service days between the correct dates of employment and the dates actually entered in CAPPs were identical. As a result, CAPPs calculated effective state service dates were not affected and the current longevity payment for these employees were correct.

## Missing Prior State Service Verification Form

One personnel file was missing prior state service documentation necessary to verify the employees' state service and the accuracy of the longevity payments. As a result of the audit, the Commission requested and obtained the prior state service verification documentation. The prior state service for the employee matched the data in CAPPs; therefore, the longevity amount paid to the employee was correct. The Commission explained that it was not aware that the PSSV form was missing from the employee's file because the contract vendor maintains all employee files off-site.

When an agency hires an employee, the agency must research if the employee has previous state employment. If there is prior state service, the agency must confirm the amount of lifetime service credit and properly record it or run the risk of underpaying longevity pay. See the [Texas Payroll/Personnel Resource](#).

We provided the Commission with schedules of the missing documentation and the calculations of the longevity underpayments. The schedules are not included with this report due to confidentiality issues.

## Recommendation/ Requirement

The Commission must correct the employees' effective state service dates to ensure future payments are correct. The Commission must also correct its internal payroll/personnel system and its procedures to ensure lifetime service credit is only given for the days the individual is a state employee.

In addition, the Commission should verify all personnel files and ensure prior state service is properly verified and documented for its employees.

The Commission should consider recovering the overpayments in accordance with Texas Government Code, Chapter 666. The Commission must compensate the employees who were underpaid longevity.

## Commission Responses

*The Commission has processed all unpaid longevity in the finding. Any identified overpayments of longevity will be pursued for collection. The Commission has corrected state service dates so that pay will be correct going forward. The Commission has reviewed internal business processes for state service establishment. The Commission (through its service center) will continue to validate prior state service forms for all hires from agencies where an employee reports they previously worked and ensure that the information is properly entered into the HHS Centralized Accounting Payroll Personnel System (CAPPS). If an employee reports that his/her prior state service record in the CAPPS system is either incomplete or incorrect during his/her HHS employment, research is conducted to determine the appropriate resolution, up to and including correcting the employee's prior state service history in the CAPPS system and processing additional pay as appropriate. Prior state service information entered into the CAPPS system is initially dependent on employees self-reporting their prior state service verbally and by completing their State of Texas application. The HHS Human Resource Department is then responsible for providing oversight of the HHS Service Center to ensure the information is entered timely and accurately.*

*Implementation Date: Payments January 2015*

*Service verifications - Ongoing*

*Responsible Parties: Mike Markl, Director HHS System Payroll Services*

*Raette Hearne, Director HHS System Human Resources*

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## DETAILED FINDINGS — PURCHASE

### Duplicate Payments

#### Finding

We ran a report to identify potential duplicate payments processed by the Commission for the audit period. During our review of this report, we identified 14 payments that were paid twice. The total overpayment amount was \$13,131.86. The Commission agreed that these were duplicate payments and requested refunds from the vendors during our fieldwork.

The Commission stated that its internal accounting system warns the user when duplicate invoices are entered for payment. The staff should have done research to make sure the transaction was not a duplicate payment. In these cases, the edit in place did not prevent the issuance of payment.

#### Recommendation/Requirement

The Commission must strengthen its current procedures to identify duplicate invoices to ensure that it avoids making a duplicate payment to a vendor. The accounting staff should ensure that invoices and payments are reconciled in an effort to prevent duplicate payments.

#### Commission Response

*Management agrees with the finding.*

*Management with HHSC Accounting Operations conducted a staff meeting with HHSC Accounting Operations staff who entered nine of the duplicate vouchers to strengthen and reiterate procedures to follow when receiving a duplicate invoice warning message from the Accounting system, which is the method used to avoid duplicating payments.*

*Management with HHSC Accounting Operations also conducted a seminar at a Regional Administrative Services (RAS) meeting with RAS staff who entered five of the duplicate vouchers to strengthen and reiterate procedures to follow when receiving a duplicate invoice warning message from the Accounting system.*

## 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) or were not part of the bid solicitation documentation. Freight charges not specifically identified on the original PO should not be paid by the Commission. The Commission stated that these were due to oversights.

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 Commission does not owe the charges and they 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

*Management agrees with the finding.*

*Management with HHSC Accounting Operations has reinforced written policies and procedures through additional training with Central Office and Regional Accounts Payable staff with regards to freight.*

*Procurement and Contracting Services is ensuring that freight is addressed in all purchase orders, where appropriate.*

*Target Implementation Date: July 2015 and February 2016*

*Responsible Party: Diane Jackson, Accounting Director*



## Missing Purchase Order

### Finding

During our audit of purchase transactions, we identified one payment not supported by a purchase order (PO).

Without a purchase order created at the time the goods were ordered, 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 has procedures in place that require a purchase order be created prior to obtaining goods and services, but the ordering department did not follow the procedures in this instance.

It is the general responsibility of a state agency and its officers and employees to “ensure that 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 [Texas Administrative Code, Chapter 34, Section 5.51\(c\)\(1\)\(D\)](#).

### Recommendation /Requirement

While a formal or automated PO is not generally required, the Commission must ensure that documentation of the PO is prepared when ordering goods or services from the vendor. Once the Commission has made a final approved agreement with the 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.

### Commission Response

*The employee who obligated HHSC on this purchase no longer works for HHSC. HHSC has reviewed such purchases and has put controls in place to prevent a re-occurrence and will hold individual employees personally responsible for unauthorized purchases.*

## Procurement Process Not Utilized

### Finding

We identified two transactions for Smart Design related to the same purchase that did not follow the procurement process. The Commission processed two separate transactions for the same product on two separate purchase vouchers. One purchase voucher was processed for \$9,150.00 and the second purchase voucher was processed for \$4,808.33, totaling \$13,958.33. The Commission could not provide the purchase order (PO) or other documentation necessary to support the procurement process for these transactions. The Commission stated that these transactions did not go through the Commission's Procurement and Contracting Division.

We also identified two transactions for Abracadabra Advertising related to the same purchase that did not follow the procurement process. The Commission processed two separate transactions for the same product totaling \$8,737.80. The Commission obtained a quote from the vendor, processed a PO for \$4,323.90 then cancelled the PO. After the PO was cancelled, the Commission ordered and received the product, received an invoice, and made payment through unencumbered funds without an approved PO. Then, the Commission used the same quote and processed a PO for \$4,413.90 for the same product. The Commission should not have split this purchase, but should have obtained the necessary procurement documentation to support this payment.

The Commission did not follow procurement procedures by obtaining bids from multiple vendors for goods and services. These purchases violate the procurement requirement to obtain bids for goods or services between \$5,000 and \$25,000, which must be made using the open market informal solicitation method. See [State of Texas Procurement Manual](#), Section 2.7.

### Recommendation/Requirement

The Commission must obtain bids from qualified vendors for all services exceeding \$5,000. The Commission should not circumvent this process by splitting up purchases. The Commission should revise its procedures to include sanctions for individuals who do not comply with its procedures. Training on procurement procedures for Commission staff should also be provided.

### Commission Response

*The employee who obligated HHSC on this purchase no longer works for HHSC. HHSC has reviewed such purchases and has put controls in place to prevent a re-occurrence and will hold individual employees personally responsible for unauthorized purchases.*

*Implementation Date: December 2015*

*Responsible Party: HHSC Management, HHSC PCS, HHSC CFO Division*

## Purchase Order Improperly Changed

### Finding

We identified two transactions for one vendor where the Commission improperly changed the purchase order (PO) after the vendor was awarded the contract. The Commission requested assistance from Statewide Procurement Division (SPD), formerly TPASS, in conducting a Request for Proposal for goods and services. SPD awarded the contract to the vendor for \$70,128.50. The Commission processed a PO for \$70,128.50 and then processed a purchase change order and added \$19,050.69, which exceeded the contract amount.

When the Commission enters into a contract for goods or services with a vendor, expenditures under the contract may not exceed the established limit. The Commission may amend a contract and pay additional amounts only if the vendor provides an additional benefit, i.e., consideration, to the Commission.

In this case, the Commission did not document any additional benefits, i.e., considerations received from the vendor. Therefore, the additional goods and services totaling \$19,050.69 should have followed the procurement procedures by obtaining bids from multiple vendors for goods and services. This violates the procurement requirement to obtain bids for services between \$5,000 and \$25,000, which must be made using the open market informal solicitation method. See the [State of Texas Procurement Manual](#), Section 2.7.

### Recommendation/Requirement

The Commission must ensure that the payments do not exceed the amounts authorized on the contract or PO, unless the contract or PO is properly amended due to the vendor providing additional consideration.

### Commission Response

*PCS will ensure proper documentation and revisions of purchase orders.*

*Target Date: April 2015*

*Responsible Party: Michael Parks, Associate Commissioner for Procurement Operations*

## Texas Correctional Industries (TCI) Contract Not Utilized/TCI Waiver Not Obtained in a Timely Manner

### Finding

We identified two payment card transactions where the Commission did not utilize the TCI state contract to purchase office furniture. The Commission stated that the employees that charged the furniture to the payment card did not obtain a TCI waiver and that it was an oversight.

We also identified one purchase transaction where the Commission failed to get a TCI waiver in a timely manner for modular and conventional furniture. A building lease was signed March 2014, with full access to the premises for occupancy 30 days prior to July 2014. Due to lack of communication between two divisions within the Commission, the first TCI waiver was denied in May 2014, because TCI stated they had a similar product. Then the Procurement and Contracting Division informed TCI that they needed to get the waiver approved because delivery will cause a delay in business processes and they need to proceed. The Facility Management & Leasing Division was aware of the lease in March 2014, and should have involved the Procurement and Contracting Division early in the planning process for TCI to respond to the modular and conventional furniture request.

[Texas Government Code, Section 497.024 \(a\) - 497.029](#) and the [State of Texas Procurement Manual](#), Section 2.5.2, state that competitive bidding is not required for items purchased from the Texas Department of Criminal Justice (TDCJ) under the Prison Made Good Acts, except for printing. To use this procedure, the following steps are to be taken:

- A written quote is obtained from TDCJ/Institutional Division (Texas Correctional Industries-TCI).
- The agency issues a PO directly to TDCJ/Institutional Division. Note the following on the purchasing documentation, “the award was made under the Prison Made Goods Act and is noncompetitive.”

### Recommendation/Requirement

The Commission must ensure that set-aside contracts for products/services offered by TCI receive priority over open market purchases. If a product/service offered by TCI as set forth in its catalog of products and services needs to be purchased from a source other than TCI, the Commission should obtain a waiver from TCI in a timely manner and make it part of the procurement file. The Commission must ensure that all parties are included during the planning phase of a purchase.

### Commission Response

*HHSC purchasing staff know to use TCI, whenever it has a good or service that matches a purchasing need. Staff with ProCards have been instructed to do the same, but it is clear that more training is needed. In response to the finding, stronger reviews have been put in place with regards to ProCard use. HHSC will pursue action against employees, to include reimbursement of expense and employee counseling, that make unauthorized purchases with their cards.*

*Implementation Date: On going process*

*Responsible party: PCS, HHSC Management, CFO Division*



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## DETAILED FINDINGS – PAYMENT CARD

### Incorrect Processing of Third-Party Transactions

#### Finding

We ran a report outside of the sample to identify potential payments processed incorrectly to third-party vendors by the Commission for the audit period. During our review of this report, we identified 27 payments processed incorrectly to the state's payment card vendor. The incorrect payments totaled \$114,451.27. The Commission failed to provide the correct billing account number as prescribed by [Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements \(FPP A.043\)](#) and [USAS and CAPPS Financials Invoice Number Field Requirements \(FPP E.023\)](#). As a result, the vendor was unable to directly post payments to the Commission's procurement and travel card accounts. This may further result in unidentified and delayed payment postings and potential lost rebate earnings.

#### Recommendation/Requirement

The Commission must enhance its procedures to ensure payments for third-party transactions are processed in accordance with FPP A.043 and FPP E.023. We recommend the Commission review payment card statements to ensure the payments were posted correctly to avoid any account delinquency or reconciliation issues.

#### Commission Response

*Management with HHSC Accounting Operations agrees with the finding.*

*All 27 payments identified used an incorrect billing account number format in the invoice ID number field of the payments.*

*Management with HHSC Accounting Operations conducted a staff meeting with HHSC Accounting Operations A/P staff who entered six of the vouchers to strengthen and reiterate existing written procedures to follow when entering a third-party transaction invoice ID.*

*Management with HHSC Accounting Operations conducted a seminar at a Regional Administrative Services (RAS) meeting with RAS staff who entered 11 of the vouchers to strengthen and reiterate existing written procedures to follow when entering a third-party transaction invoice ID.*

*Management with HHSC Accounting Operations conducted a staff meeting with HHSC Accounting Operations Travel staff who entered 10 of the vouchers to strengthen and reiterate existing written procedures to follow when entering a third party transaction invoice ID.*

*Accounting Operations will review payment card statements to ensure the payments were posted correctly.*

*Implementation Date: July 2015 and February 2016*

*Responsible Parties: Diane Jackson, HHSC Accounting Director*

## Violation of State Warrant Hold Statutes

### Finding

Commission staff failed to check vendors for “warrant hold” prior to making payment card purchases of more than \$500 for three transactions. The Commission’s policy for payment cardholders requires the employees to check the warrant hold status for the vendors prior to making the purchases. In most cases, the vendors’ status was checked and copies were attached to the receipts and activities logs. It is the Commission’s responsibility to ensure that it does not use state funds indirectly to pay vendors that are on “warrant hold.”

State agencies are required to verify a vendor’s hold status for non-emergency payments made with payment cards over \$500. [Texas Administrative Code, Chapter 34, Section 5.57\(g\)\(6\)](#) prohibits a state agency from using payment cards for a purchase from a vendor if payment to the vendor is prohibited by a warrant hold statute.

### Recommendation/Requirement

The Commission must follow its procedures to check for vendor warrant hold status prior to the initiation of purchases more than \$500, in accordance with [Texas Administrative Code, Chapter 34, Section 5.57\(g\)\(6\)](#) and [Verifying Vendor Hold Status \(FPP K.012\)](#).

### Commission Response

*Management with HHSC Accounting Operations conducted a staff meeting with HHSC Accounting Operations A/P staff who perform this task to strengthen and reiterate the correct existing written procedures to follow when reviewing ProCard Logs.*

*Additionally, PCS does monitor the use and pursue any issues if found.*

*Implementation Date: July 2015 and February 2016*

*Responsible Parties: Diane Jackson, Accounting Director*

## Term Contracts Not Utilized

### Finding

We identified five instances in our payment card sample where the Commission did not utilize the Comptroller's Statewide Procurement Division (SPD), formerly TPASS, term contracts that offer the same or similar items as those purchased.

According to [Texas Government Code, 2155.132\(f\)\(1\)](#), goods purchased under this section may not include: an item for which a contract has been awarded under the contract purchase procedure, unless the quantity purchased is less than the minimum quantity specified in the contract.

The [State of Texas Procurement Manual](#), Section 2.6, Term Contracts, states that agencies are required to utilize the established term contracts unless they fail to meet their needs. In such case, the justification should be documented on the agency's purchase order and in the procurement file.

### Recommendation/Requirement

The Commission must utilize the term contracts established by the Comptroller's office unless the contracts fail to meet its needs. If the term contract fails to meet the Commission's needs, a justification should be documented.

### Commission Response

*HHSC purchasing staff know to use term contracts, whenever a term contract has a good or service that matches a purchasing need. Staff with ProCards have been instructed to do the same, but it is clear that more training is needed. In response to this finding, HHSC is working with Commission areas to ensure better monitoring by their card holders; however, PCS does monitor all contracts and pursue any issues if found. HHSC has a policy in place to ensure review of TPASS contracts currently.*

*Implementation Date: April 2015*

*Responsible Party: Michael Parks, Associate Commissioner for Procurement Operations*

## Improper Payment of State Sales Taxes

### Finding

We identified one payment card transaction in which the Commission paid state sales taxes. The payment was made due to an oversight by the Commission.

These charges are not payable with state funds. 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 [Texas Administrative Code, Chapter 34, Section 3.322\(f\) \(2\)](#).

### Recommendation/Requirement

The Commission must ensure that it thoroughly reviews invoices to ensure they are correct and do not include taxes. The Commission must ensure that all expenses are thoroughly reviewed for legality and accuracy prior to payment. The Commission must obtain a refund from the vendor for the amount of the taxes.

### Commission Response

*Management agrees with the finding. The policy regarding state sales tax is included in the HHS Pro-Card Policy and includes this as an unacceptable purchase.*

*Management with HHSC Accounting Operations conducted a staff meeting with HHSC Accounting Operations A/P staff who now perform this task to strengthen and reiterate the correct written policies and procedures to follow when reviewing ProCard logs.*

*Implementation Date: July 2015 and February 2016*

*Responsible Party: Diane Jackson, Accounting Director*

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## DETAILED FINDINGS — TRAVEL CARD

### Loss to Payment Card Rebate Program

#### Finding

We ran a report outside of the sample to identify any outstanding payments due to Citibank for the Commission's procurement and travel credit card accounts for the audit period. We found an outstanding balance over 180 days for the travel card for \$154,289.91 that was deducted from the state of Texas and Citibank Payment Card Rebate Program.

The Commission stated that a third-party vendor was handling the travel card and was responsible for making payments directly to Citibank. When the Commission authorized the third-party vendor to use the travel card, the Commission did not inform Citibank that the third-party vendor was going to make the payments directly to Citibank on their behalf.

In November 2014, Citibank informed the Commission that the travel card used by the third-party vendor had an outstanding balance of \$179,699.80. After the third-party vendor reconciled the travel card, three payments were made to Citibank with a remaining balance of \$154,289.91. In February 2015, Citibank deducted the \$154,289.91 from the annual payment card rebate program owed to the state of Texas.

The state of Texas and Citibank Contract No. 946.A1, states that Citibank shall make annual payments to the state of Texas (based on the state fiscal year) or Cooperative Purchasing Program Customers in the form of a rebate. The rebate or revenue sharing arrangement shall be based on the total cumulative dollars spent as posted for both payment and travel charge cards. The contract also states that payments received on day 41 or later will not qualify for rebates. In addition, any outstanding balances will be deducted from the annual rebate payment to the state of Texas.

#### Recommendation/Requirement

The Commission must ensure payments to Citibank comply with the state of Texas and Citibank Contract No. 946.A1. The Commission must create policies and procedures to monitor the state of Texas procurement and travel credit cards and ensure they are paid according to the contract terms. This will eliminate any loss to the payment card rebate program. In addition, the Commission must reimburse the payment to the unappropriated receipts – general revenue for \$154,289.91.



### Commission Response

*The travel credit card account associated with the payment card rebate program finding was a result of an unusual situation within the Commission. The Commission granted authority to a division to establish an account to secure transportation travel services for eligible Medicaid recipients with a third-party vendor. The third-party vendor was not maintaining the account as required by the Commission's established procedures to ensure compliance of Citibank contract terms. This account related to the finding was closed on Aug. 24, 2015. HHSC Accounting Operations has "Corporate Liability Individual Bill Account (CLIBA) Cards" policies and procedures established to ensure that travel cards under the HHSC account are reconciled and paid timely. The Commission will work with its Legal Services Division to assist in reviewing options to recover funds from Citibank.*

*Implementation Date: Nov. 1, 2016*

*Responsible Parties: Diane Jackson, HHSC Accounting Director*

## Unauthorized Use of State-Issued Travel Card

### Finding

We identified one instance outside the sample where Commission failed to collect an employee's state travel credit card upon separation from the agency. The employee separated from the Commission under reason code 067 – dismissal for cause. However, the employee continued to use the state travel charge card after his termination date and charged \$7,503.47. The Commission stated that due to an oversight it did not collect the credit card for seven months.

According to [Texas Administrative Code, Section 20.308\(d\)\(1\)](#), state agencies shall ensure that state travel credit cards are cancelled upon the employee's termination of employment.

We found another instance outside the sample where the Commission gave a third-party vendor a state travel credit card. The vendor charged \$154,289.91 on the state travel charge card.

We also found three instances outside the sample totaling \$223.35 where the employees charged non-travel expense items to the state travel charge card.

According to [Texas Administrative Code, Section 20.308\(a\)](#), state agencies, officials and employees shall use state travel credit cards to purchase contract and non-contract travel services. Contract travel services for airfare shall be charged to the state credit cards. Contract and non-contact travel services for lodging, rental vehicles and other necessary travel expenses shall be charged to the state travel credit cards when feasible.

### Recommendation/Requirement

The Commission must ensure they collect and cancel employee state travel credit cards, and also ensure any balance due is paid to the appropriate entity upon termination of employment. The Commission must also ensure that state travel charge cards are only used by state agencies, officials and employees, and personal items are not purchased.

### Commission Response

*Management agrees with the finding.*

*The account for the terminated employee was canceled after Travel staff became aware that the employee had been terminated. A termination report from HR has been requested to ensure that notification is provided on a regular basis. HHSC provided a third-party vendor authority to use a State Travel Card in error and that account was also canceled. This has been addressed with Travel Staff through written travel policies and procedures. Additionally, travel card charges are controlled by "merchant codes" setup by HHSC with Citibank to alert of inappropriate purchases using a State-Issued Travel card. Travel staff review the alert by Citibank to make the determination that the purchase is inappropriate.*

*Implementation Date: February 2016, Termination Report Implementation: Oct. 1, 2016  
Responsible Party: Diane Jackson, HHSC Accounting Director*

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## DETAILED FINDINGS — TRAVEL

### Lack of Conservation of State Funds

#### Finding

We identified nine instances where the Commission reimbursed travelers for mileage while operating a personally owned vehicle 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 traveler used a rental vehicle instead of a personally owned vehicle. 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.

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 Commission must exercise caution in its use of state funds and ensure that those expenditures are fiscally responsible. During our audit, the Commission was in the process of updating its policies and procedures to implement a cost analysis policy to ensure it uses the most cost efficient method of travel.

#### Commission Response

*HHSC Management agrees with the finding. Agency employees are also encouraged to use a Trip Optimizer Calculator that is on the HHSC Travel website where a comparison between using a direct billed rental car versus use of a personal car can be easily be done. The HHSC HHS Connection newsletter published on Jan. 28, 2016, went out to all HHS employees providing the travelers with this tool. The use of rental cars and this comparison of costs is a constant training communication that Travel staff provide to all HHSC travelers. The HHSC System will be implementing a new automated tool (eTravel) beginning Nov. 1, 2016, to assist with cost comparison of travel as well as other travel policies. HHSC staff planning their travel post Sept. 1, 2016 are required in the “HHS System Travel Policy” to utilize the most cost effective method of travel.*

*Targeted Implementation Date: Nov. 1, 2016*

*Responsible Party: Diane Jackson, Accounting Director*

## Missing Travel Documentation

### Finding

We identified one credit card payment in our sample for travel expenses that did not include documentation to support the expense. We also identified five credit card payments for travel expenses outside the sample totaling \$231.67 that did not include documentation to support the expense. The Commission stated that they had to clear the account and pay the credit card company.

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.

According to [Texas Administrative Code, Chapter 34, Section 5.22 \(i\)\(2\)](#), “Supporting documentation must be sufficient to detail the expenses claimed. Supporting documentation requirements apply to a travel expense that is paid directly and to a travel expense reimbursement made by an agency.”

### Recommendation/Requirement

The Commission must obtain proper documentation for travel expenses prior to processing payment. The supporting documentation must be maintained in agency files at least until the end of the second appropriation year after the appropriation year in which the document is processed through USAS.

### Commission Response

*HHSC management agrees with the finding.*

*Management with HHSC Accounting Operations conducted a staff meeting with HHSC Accounting Operations Travel staff to advise them of the finding. Travel staff has been provided reinforcements of current written procedures to ensure they are aware of these payment requirements. Supporting documentation is kept on file through an automated system called Neubus, which includes all documentation for more than two years.*

*Implementation Date: February 2016*

*Responsible Party: Diane Jackson, HHSC Accounting Director*

## Improper Processing of Travel Advance Account Interest

### Finding

During our audit, we examined the Travel Advance account. We discovered the Travel Advance account is held at a financial institution in an interest-bearing account. The interest earned on the Travel Advance account is being retained in that account. The amount of interest retained in the financial institution totaled \$1,146.80.

According to [Travel Advance Account and Petty Cash Account \(APS 010\)](#), interest earned on the petty cash accounts must be deposited with the State Treasury into the General Revenue Fund, Appropriation 99906, Object Code 3852, unless the agency has a specific statute directing interest to a special fund.

The Commission was unaware that the interest earned from the Travel Advance account needed to be deposited with the State Treasury into the General Revenue Fund.

### Recommendation/Requirement

The Commission must ensure they properly deposit interest earned on the Travel Advance account with the State Treasury.

### Commission Response

*HHSC Management agrees with the finding. Accounting staff have been advised of the finding and must ensure that interest gets moved into the State Treasury into the General Revenue Fund.*

*HHSC is developing a process to transfer interest to CPA, with guidance of CPA Appropriation Control Officer.*

*Implementation Date: Nov. 1, 2016*

*Responsible Party: Diane Jackson, HHSC Accounting Director*



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## DETAILED FINDINGS – PROMPT PAYMENT AND PAYMENT SCHEDULING ISSUES

### Prompt Payment

According to the prompt payment law, [Texas Government Code, Section 2251.021\(a\)](#), 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, Section 2251.026](#). During the audit period, the Commission paid vendors \$115,769.72 in prompt payment interest.

In our sample, we identified 10 purchase transactions that were paid late but interest was not paid to the vendors. We also noted two purchase transactions which overpaid interest and three purchase transactions which underpaid interest to the vendor. According to the Commission, these errors occurred due to an oversight.

### Payment Scheduling

[Texas Government Code, Section 2155.382\(d\)](#), 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 21 purchase and travel transactions where the Commission paid early, resulting in interest loss to the State Treasury. According to the Commission, these errors occurred due to an oversight.

### Recommendation/Requirement

The Commission must review its procedures to ensure that it submits payment information for processing as well as releasing the payment in a timely manner to avoid incurring interest liabilities. In addition, the Commission 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 Commission must schedule all payments that are greater than \$5,000 for the latest possible distribution and in accordance with its purchasing agreements as described in [eXpendit — Payment Scheduling](#).

## Commission Response

### **Prompt Payment:**

*HHSC Management agrees with the finding.*

*Management with HHSC Accounting Operations conducted a staff meeting with HHSC Accounting Operations A/P staff to reiterate existing procedures to follow when entering the dates impacting payment of late payment interest.*

*Management with HHSC Accounting Operations conducted a seminar at a Regional Administrative Services (RAS) meeting with RAS staff to reiterate procedures to follow when entering the dates impacting payment of late payment interest in accordance with Texas Government Code, Section 2251.021(a).*

*Implementation Date: July 2015 and February 2016*

*Responsible Party: Diane Jackson, HHSC Accounting Director*

### **Payment Scheduling:**

*HHSC Management agrees with the finding.*

*Management with HHSC Accounting Operations conducted a staff meeting with HHSC Accounting Operations A/P staff to reiterate existing written procedures to follow when entering the dates impacting interest for expenditures that exceed \$5,000 per payment scheduling rules.*

*Management with HHSC Accounting Operations conducted a seminar at a Regional Administrative Services (RAS) meeting with RAS staff to reiterate existing written procedures to follow when entering the dates impacting interest for expenditures that exceed \$5,000 per payment scheduling rules.*

*Management with HHSC Accounting Operations conducted a staff meeting with HHSC Accounting Operations Travel staff to reiterate written procedures to follow when entering the dates impacting the scheduling of payments.*

*Implementation Date: July 2015 and February 2016*

*Responsible Party: Diane Jackson, HHSC Accounting Director*

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## DETAILED FINDINGS — SECURITY

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

#### Finding

During the audit period, the Commission did not notify the Comptroller's office in a timely manner about the termination of one employee designated by the Commission to approve its expenditures. The request must be sent on or before the effective date of an employee's termination or revocation. In this case, the security request was never sent to or revoked by the Comptroller's office. This permitted the employee to approve any vouchers the Commission submitted electronically to the Comptroller's office through USAS after the authority expired. We queried our payment system and found that no payments were processed by the employee after termination or authority expired. According to the Commission, they notified the Comptroller's office but the Comptroller's office never received the security request to revoke the employee's access.

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. Any officer or employee may send the Comptroller's office that notification. See [Texas Administrative Code, Chapter 34, Section 5.61\(k\)\(3\)\(B\)](#). Additionally, Section 5.61(k) 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 [Texas Administrative Code, Chapter 34, Section 5.61\(k\)\(5\)\(A\)-\(B\)](#).

#### Recommendation/Requirement

The Commission must ensure compliance with [Texas Administrative Code, Chapter 34, Section 5.61\(k\)\(5\)\(A\)-\(B\)](#). 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 receipt of the notification and that the revocation occurred.

## Commission Response

*A report is run weekly by the HHSC Security Coordinator, which lists terminated HHSC employees and this report is compared against a list of Comptroller system users to identify security accesses that must be removed. The Commission has established these security procedures and will be documenting them. The Commission will ensure that a request to revoke a employee's security access is submitted on or before the employee's termination or revocation.*

*The Commission will begin comparing this same termination report against employees who are authorized to approve expenditures and send notification to the Comptroller's office no later than the fifth day after the effective date of the employee's termination.*

*Implementation Date: Documentation of procedures: December 2016*

*Responsible Party: Diane Jackson, HHSC Accounting Director*

## **Control Weakness Over Expenditure Processing/Missing Confidential Treatment of Information Acknowledgment**

### **Finding**

As part of our planning process for the post-payment audit, we reviewed certain limitations that the Commission placed on its accounting staff's ability to process expenditures. We reviewed the Commission's security in USAS, SPRS, the Texas Identification Number System (TINS) and voucher signature cards that were in effect on April 16, 2015.

Four employees can pick up warrants from the Comptroller's office and approve paper vouchers and two employees can adjust payment instructions in TINS and approve vouchers. The Commission stated that the four employees retain this access in case of disaster assistance warrants that require emergency processing on a weekend. The Commission was provided with a schedule of this finding during fieldwork.

To reduce risks to state funds, agencies should have controls over expenditure processing that segregate each accounting task to the greatest extent possible. Ideally, no individual employee should be able to process transactions without another employee's involvement.

As a routine part of our security review, we reviewed the Commission's compliance with the requirement that all agency users of the Comptroller's statewide financial systems complete a Confidential Treatment of Information Acknowledgment (CTIA) form. When a new user needs access to the Comptroller's statewide financial systems, the first step that the agency's security coordinator takes is to have the person read and sign the CTIA form. A reviewing official also signs the agreement 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 one CTIA form signed after the individual had accessed the Comptroller's statewide financial systems. The Commission stated that the employee signed the CTIA form when the employee was originally hired. The employee was then promoted and the Commission had the employee sign a new CTIA form that replaced the old CTIA form.

### **Recommendation/Requirement**

The Commission should periodically review the controls over expenditure processing and segregate each task to the extent possible to ensure that no individual employee is able to process payments without oversight.

The Commission should enhance its procedures to ensure that the original CTIA form is kept on file as long as the user has access to the statewide financial systems, plus the five year retention period.

## Commission Response

*In April 2016, an update was made to the list of Commission employees authorized to pick up warrants from the Comptroller's office. None of the employees on this updated list have expenditure approval authority. The Commission will periodically review this list, and future updates to this list, against voucher signature cards on file to ensure that no employee can pick up warrants and approve vouchers.*

*Security changes have been made to change the TINS access to inquiry-only for the individuals who could also approve vouchers. The Commission will periodically review TINS security against employees who can approve vouchers and alter security as needed. The Commission will also review new security requests, and requests to change security, to ensure an employee cannot adjust payment instructions in TINS and approve vouchers.*

*The Commission will retain the original CTIA signed by the employee after removal of security access for five years as required. The Commission will attach the original CTIA to the new CTIA form, if submitted, when an employee seeks to reestablish security access to the Comptroller's systems.*

*Implementation Date: April 2016*

*Responsible Party: Diane Jackson, HHSC Accounting Director*