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Statewide Fiscal Services Dept.
Expenditure Audit Section
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Audit Report # 409-15-01
November 18, 2016

Post-Payment Audit of the Texas Commission on Jail Standards



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EXECUTIVE SUMMARY

Audit scope

We audited a sample of the Texas Commission on Jail Standards' (Commission) 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 March 1, 2015, through Feb. 29, 2016, to determine compliance with applicable state laws.

The Commission receives appendices with the full report that includes 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

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

The audit identified:

- 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:

- Three transactions were missing purchase documentation.
- Department of Information Resources contract was not utilized.
- Six transactions missing Centralized Master Bidders List (CMBL) solicitations.
- Seven transactions missing System for Award Management search documentation.
- Missing procurement plan.

Travel transactions

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

- No issues were identified.

Third-Party Transactions

The audit included a review of the procurement transaction report for compliance with [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 \(FPP E.023\)](#).

The audit identified:

- Eighteen third-party payments processed incorrectly.

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:

- One employee who can adjust payment instructions in the Texas Identification Number System (TINS) and approve paper vouchers without oversight.
- The same employee can pick up warrants from the Comptroller's office and approve paper vouchers without oversight.

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 May 25, 2012.

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

- Control weakness over expenditure processing.

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DETAILED FINDINGS — PURCHASE

Missing Purchase Documentation

Finding

During our audit of purchase transactions, we identified one transaction that was not supported by a purchase order (PO). The Commission's procedures require the creation of a PO prior to obtaining goods and services; however, these procedures were not followed in this instance.

A PO is a contract entered into between the Commission and the vendor. When the Commission enters into a contract for goods or services with the 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 to the Commission. Any amendments to the original agreement should be documented.

Without a PO, it becomes difficult for the Commission to ensure it was not overcharged or billed for goods or services beyond those the Commission agreed to purchase.

We also identified two purchase transactions missing receiving documentation to verify receipt of goods purchased. The Commission has procedures in place to verify receiving documentation prior to processing the payments; however, these procedures were not followed in these instances.

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.

As provided by [Texas Administrative Code, Chapter 34, Section 5.51\(c\)\(1\)\(D\)](#), it is the responsibility of a state agency and its officers and employees to "ensure that for each purchase document, the agency maintains necessary documentation for proving each payment resulting from the document is legal, proper, and fiscally responsible."

Supporting documentation must be made available to the Comptroller's office in the manner required by the agency. The types of supporting documentation the Comptroller's office may request includes: purchase orders, requisitions, contracts, invoices and receipts. See [Texas Administrative Code, Chapter 34, Section 5.51\(e\)\(2\)-\(3\)](#).

Recommendation/Requirement

The Commission must ensure that documentation of the purchase is prepared at the time the goods or services are ordered from the vendor. Once the Commission has processed a final approved PO with the vendor, the Commission may not pay any amount in excess of the agreed-upon amount unless the PO is amended due to the vendor providing a new benefit to the Commission.

The Commission must also ensure that no payment is made without sufficient supporting documentation. The Commission must also ensure that it creates and maintains supporting documentation for audit review.

Commission Response

The Commission agrees that a purchase order was not created to extend the agreement of an existing copier in the agency offices. A color copier was procured via the state approved contract via a purchase order, once the term of the contract expired the agency contacted the vendor to inquire about options available for a new color copier.

The vendor informed the agency that a new color copier would cost more, but that the existing copier could be continued on a month to month basis at a lower cost. The Commission failed to create a purchase order for the month to month period.

The Commission will ensure that all month to month services or any purchases will have a purchase order in place before prior to receipt of said goods and services.

The Commission also agrees that there were two instances from the sample selected by the auditors that did not have a receiving report attached.

In one occurrence, office supplies were ordered and delivered; however, agency staff failed to date stamp and note the bill of lading for use as a receiving report. In the other occurrence, the agency ordered clothing that required embroidery, but failed to create a receiving report for these items that were picked up by a staff member.

The agency agrees that a receiving report must be obtained in order to reconcile the goods received versus the purchase order prior to remitting payment to the vendor. The agency does practice this procedure as part of the purchasing process, but failed to do so in these instances.

Department of Information Resources Contract Not Utilized

Finding

The Commission entered into a contract with a vendor listed on the Department of Information Resources (DIR) negotiated contracts for products and services; however, the Commission did not utilize the DIR negotiated contract. The Commission requested a quote from the vendor and selected the vendor without receiving competitive bids from any other DIR contracted vendors or verifying that it received the DIR contract rates and terms. The Commission believed that it was correctly following these statutes when it selected the vendor.

[Texas Government Code, Section 2157.068](#), requires state agencies to buy commodity items from DIR contracts unless the agency obtains an exemption from DIR. Commodity items are defined in [Texas Administrative Code, Chapter 1, Section 212.1](#), and include “commercially available Software, Hardware and Technology Services.” This statute is mandatory and not permissive. The contracts were for technology services and do fall under the definition of commodity items.

Recommendation/Requirement

The Commission must ensure it uses DIR negotiated contracts for goods or services offered by a DIR-contracted vendor when a DIR-contracted vendor is available, or obtain a written exemption from DIR allowing it to use a non-contracted vendor.

Commission Response

Dell Computers which was the vendor listed on the DIR contract site was used by the agency but the Commission did not use the outlined contract number or specifications listed on the DIR site.

The Commission did obtain a competitive rate for the lease services provided by Dell.

The Commission agrees that it should use the DIR negotiated contract for goods/services when that contract is available or it will obtain a waiver from DIR to use other non-contracted vendors.

Missing Centralized Master Bidders List Solicitations

Finding

We identified six transactions where the Commission failed to provide the Centralized Master Bidders List (CMBL) profile printout listing all eligible suppliers dated prior to their respective awards. The Commission was unable to provide proof that CMBL vendors were actually solicited for the procurement processes.

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 Statewide Procurement Division (SPD) 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](#) – Section 2.24 Centralized Master Bidders List (CMBL). Proof that the CMBL system was checked prior to any award or contract renewal by State of Texas government entities must be obtained. See [Texas Government Code, Chapter 2155, Section 2155.263-2155.264](#) and [Texas Administrative Code, Chapter 34, Section 20.34\(g\)](#).

Recommendation/Requirement

The Commission 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 and must be included in the contract file.

Commission Response

The Commission agrees that it failed to print out the awarded vendor's CMBL profile prior to entering into a purchase order for goods/services for the six transactions mentioned above.

The Commission has updated its internal practices to ensure that a CMBL print out is included with the purchase order residing in the vendor file.

Missing System for Award Management Search Documentation

Finding

We identified seven transactions where the Commission did not provide the required System for Award Management (SAM) printouts dated prior to its respective contract awards. According to the Commission, missing SAM printouts were an oversight based on time constraints of last-minute purchases and inability to perform searches through the U.S. government's website. The Commission also states that it will ensure printouts are performed and documented in the procurement file, which should prevent any future findings.

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

See [State of Texas Procurement Manual](#) – Section 2.30 Evaluation and Awards.

Recommendation/Requirement

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

Commission Response

The Commission agrees that there were seven instances where the SAM database was not accessed and the vendor not researched. The Commission will ensure in future that the SAM database will be accessed and the appropriate paperwork will remain on file for each vendor.

To date, no vendor selected by the agency for awards has ever appeared on the SAM or EPLS database as a barred vendor. However, the agency will continue to search and document each vendor via those systems prior to awarding contracts.

Missing Procurement Plan

Finding

The Commission did not submit its fiscal 2016 Procurement Plan to the Statewide Procurement Division (SPD) by the established deadline.

An agency procurement plan identifies the agency's management controls and purchasing oversight authority in accordance with the policy guidance contained in the [State of Texas Procurement Manual](#) – Section 1.3 Reports and Notifications. The procurement plans are to be submitted electronically to SPD by Nov. 30 each year.

The Commission stated this was an oversight and it has recently submitted its fiscal 2016 procurement plan to SPD.

“State agencies shall formulate an agency procurement plan that identifies an agency’s management controls and purchasing oversight authority in accordance with the policy guidance contained in the Commission’s Procurement Manual. An agency must submit a copy of the procurement plan during the Commission’s audit of the agency’s purchasing documents or upon request by the Commission.”

See [Texas Administrative Code, Chapter 34, Section 20.41 \(h\)](#).

State agencies are required to send a letter to SPD when no updates to the plan are needed in a fiscal year. Procurement plan submittals or “no change” letters are due to SPD by Nov. 30 each year.

See [State of Texas Procurement Manual](#) – Section 1.3 Reports and Notifications.

Recommendation/Requirement

The Commission must update its procurement procedures to ensure its procurement plan or any changes to the plan are submitted to SPD by Nov. 30th of each year.

Commission Response

The agency did submit a plan; however, it was past the Nov. 30 deadline.

Historically, the Commission does not have any changes to its Procurement Plan and merely resubmits the previous plan or submits a letter of “no change”.

To comply with the procurement plan requirements, the agency will set up internal controls/ calendars to ensure delivery of required documentation each year.

DETAILED FINDINGS — THIRD-PARTY TRANSACTIONS

Incorrect Processing of Payment/Travel Cards

Finding

We ran a report outside of the sample to identify potential payments processed incorrectly to third-party vendors by the Commission during the audit period. During our review of this report, we identified 18 payments processed incorrectly to the state's payment card vendor. The payment transactions totaled \$6,116.08. The Commission believed that it was following procedures correctly.

The Commission failed to provide the correct billing account number and vendor mail code 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

All of the 18 identified payments totaling \$6,116.08 were valid and due to the agency's payment card vendor. No payment identified was misapplied or not properly credited to the Commission's accounts. The issue is one of formatting upon entry of the document into the payment system.

Historically, for security reasons the Commission included only the last four digits of the account number in the invoice number field. As per FPP E.023, the Commission should be using ten digits of the account number. The Commission will now use the required number of digits on the invoice field entry on all payment card entries. The agency will also update the mail code related to the payment card vendor in order to comply with FPP A.043 in order to generate a direct deposit payment as opposed to a hard copy warrant.

The Commission does closely monitor all vendor payments including payment card vendors to ensure that proper credit is applied to Commission accounts. As a matter of practice, Commission accounting staff reviews the daily reports documenting each previous day's transactions in addition to reviewing payment card statements. Each statement is reviewed to verify proper credit of recent payments.

DETAILED FINDINGS — EXPENDITURE CONTROL

Control Weakness Over Expenditure Processing

Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations that the Commission placed on its accounting staff members' abilities to process expenditures. We reviewed the Commission's security in USAS, Standardized Payroll/Personnel Reporting System (SPRS), Texas Identification Number System (TINS) and voucher signature cards that were in effect on Feb. 29, 2016. We did not review or test any internal or compensating controls that the Commission may have relating to USAS, SPRS or TINS security or internal transaction approvals.

The Commission has one employee who can adjust payment instructions in TINS and approve paper vouchers. The same employee can pick up warrants from the Comptroller's office and approve paper vouchers. 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 segregates each accounting task to the greatest extent practicable. Ideally, no individual should be able to process transactions within the statewide systems without another person's involvement.

Recommendation/Requirement

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

Commission Response

As the Commission is a small agency, it is difficult to have the small number of staff maintain a complete separation of duties at all times. However, the Commission has taken precautions to mitigate the risk.

To minimize risks, no employee has the ability to enter and release for payment a voucher in the accounting system. The duties of voucher entry and voucher release are separated to ensure oversight, by a non accounting staff member, of each transaction entered into the payment system.

The Commission does agree that one staff member has the ability to adjust payment instructions in TINS and approve paper vouchers; however, due to the small staff size it is not feasible to segregate the duties of TINS maintenance from expenditure processing.

The Commission is responsive to any input from the Comptroller's office on possible resolutions on how to address this matter which usually appears as a finding by the Comptroller's office.

Comptroller Response

Although the Commission believes that it is not feasible to segregate the duties and accepts the risk, we believe that there remains an increased risk of inappropriate use of the security and authorization to allow one employee to adjust payments instructions in TINS and also approve paper vouchers and pickup warrants from the Comptroller's office. Therefore, we will continue to view this procedure as a control weakness. The Commission should implement compensating controls to ensure that no paper vouchers are submitted to the comptroller without proper oversight and review.