Post-Payment Audit of the Texas Racing Commission
Table of Contents

Executive Summary
Audit scope........................................................................................................................................... i
Payroll transactions and payroll deductions ...................................................................................... i
Purchase/Procurement ....................................................................................................................... i
Travel transactions ............................................................................................................................ ii
Special Reports ................................................................................................................................ ii
Security................................................................................................................................................ ii
Internal control structure .................................................................................................................. ii
Fixed assets........................................................................................................................................ ii
Prior post-payment audit and current audit recurring findings........................................................ iii

Detailed Findings — Payroll
Missing Personnel Action Form ........................................................................................................ 1
Missing Prior State Service Verification .......................................................................................... 2
Incorrect/Incomplete Timesheets ....................................................................................................... 3

Detailed Findings — Purchase/Procurement
Missing Procurement Documentation ................................................................................................ 4
Contract Exceeded Approved Department of Information Resources Waiver Amount ............... 5

Detailed Findings — Special Reports
Incorrect Billing Account Number .................................................................................................... 6

Detailed Findings — Internal Controls
Control Risk Over Expenditure Processing ...................................................................................... 7
EXECUTIVE SUMMARY

Audit scope

We audited a sample of the Texas Racing Commission (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 Sept. 1, 2015 through Aug. 31, 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.

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 employee files missing personnel action forms (PAF).
- Three records missing prior state service verification (PSSV).
- Fifteen cases of incorrect/incomplete documentation.

A sample of the Commission’s voluntary contributions was also audited.

- No issues were identified.

Purchase/Procurement

Purchase transactions were audited for compliance with the GAA, eXpendit, the State of Texas Procurement Manual, the State of Texas Contract Management Guide and other pertinent statutes.
The audit identified:

- Five transactions missing the required procurement documentation.
- One contract exceeded the approved Department of Information Resources (DIR) waiver amount.

**Travel transactions**

Travel transactions were audited for compliance with the GAA, Textravel and other pertinent statutes.

- No issues were identified.

**Special Reports**

The audit included a review of several reports ran to test compliance with a variety of topics. Payment card transactions were audited for compliance with eXpendit, the State of Texas Procurement Manual and other pertinent statutes.

The audit identified:

- Incorrect billing account number entered in the invoice number field.

**Security**

The audit included a security review to identify any of the Commission’s employees with security in USAS, USPS or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner.

- No issues were identified.

**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 could process and release payments in USAS, process and release payrolls in USPS, pick up warrants from the Comptroller’s office and approve vouchers without oversight.

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 office statewide financial systems complete a Confidential Treatment of Information Acknowledgement (CTIA) form.

- No issues were identified.
Fixed assets

The audit included a review of a limited sample of fixed assets acquired by expenditures during our audit period to test for accurate reporting in the State Property Accounting System (SPA) and to verify existence, location, and proper reporting of the fixed assets.

• No issues were identified.

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 March 14, 2013.

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

• Missing documentation.
• Controls risk over expenditures processing.

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DEtailED FINDINGS — PAYROLL

Missing Personnel Action Form

Finding

During our review of personnel files, we identified three instances where the Commission did not create a Personnel Action Form (PAF). According to the agency, the missing forms represent isolated incidents due to an oversight. The related salary and/or job classification adjustments were verified with the Commission and totaled $10,761.12.

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 the documentation to be made available during a post-payment audit, a pre-payment audit or at any other time. A PAF is an internal document that the Commission is required to use to record salary actions. The PAF must include the original signature and the date of the signature of an employee authorized by the agency to approve personnel actions on its behalf. See Texas Payroll/Personnel Resource – General Provisions.

We provided the Commission with the related schedules. They are not included with this report due to confidentiality reasons.

Recommendation/Requirement

The Commission must update its procedures to create a PAF for each employee who receives a salary and/or job classification adjustment and the adjustments must be properly documented, including the effective date and appropriate signature approval. The PAF must be maintained in the personnel file.

Commission Response

Finance staff is aware a PAF must be created for each salary and/or job classification adjustment. Current staff has been trained, and no entry will be made in USPS until a PAF has been created and signed by all appropriate managers, the Executive Director and Human Resources.
Missing Prior State Service Verification

Finding

During our review of the selected sample of payroll transactions, we identified three files missing Prior State Service Verification (PSSV). As a result of the audit, the Commission obtained the omitted prior state service dates. These dates matched the data the agency had already recorded in USPS for the three employees. Therefore, the longevity amounts that were originally calculated in the payroll system were correct. No modifications were necessary. According to the Commission, these errors occurred due to an oversight.

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 the 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.

When an agency hires an employee, the agency must research whether the employee has prior state service. If prior state service exists, the agency must confirm the amount of lifetime service credit and properly record it or run the risk of underpaying longevity pay. See Texas Payroll/Personnel Resource – Longevity Pay.

We provided the Commission with the pertinent schedules and calculations verifications. They are not included with this report due to confidentiality issues.

Recommendation/Requirement

The Commission must review each employee’s job application for prior state service for all current and new employees to ensure it is properly recorded. The Commission must review its controls that guarantee accuracy and completeness of personnel records and ensure its internal operating procedures include quality control measures that will detect and prevent any incorrect compensation to a state employee. See 34 Texas Administrative Code Section 5.40(c). The Commission should caution its employees to verify all totals submitted.

Commission Response

The New Hire Checklist was revised to include a check box for all prior state employment verification forms sent and a check box when all forms have been returned and filed in an employee’s personnel folder. This will ensure the new hire process is complete once all prior state employment verification forms have been completed and returned to the HR/Payroll Accountant.
Incorrect/Incomplete Timesheets

Finding

During our review of personnel files, we identified 15 monthly transactions with incorrect and/or incomplete timesheets. According to the Commission, this inaccuracy occurred because some of its employees do not work a traditional full-time shift, Monday thru Friday. These employees are stationed at Texas racetracks. They perform seasonal jobs that require up to twelve-hour days and weekend shifts. These employees submit their estimated timesheets by the 20th of the current month and are paid based on estimated hours. Once the current month is completed, they submit a final timesheet, signed by their supervisor. Employee leave is then accrued or taken based upon the number of hours for which an employee was paid. The Commission is in the process of developing a new method to document the calculation of hours worked, leave taken and leave accrued for these positions. Despite this, no errors in the payments of compensation were identified.

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.

Evening, night and weekend salary differentials must be considered when calculating the amount of an employee’s retirement contributions, federal income tax withholding or withholding for taxes imposed under the Federal Insurance Contributions Act. See Texas Payroll/Personnel – Evening, Night or Weekend Shift Salary Differential and USPS Process Guide, Chapter 10 – Special Pays.

We provided the Commission with the pertinent schedule and calculation verifications. They are not included with this report due to confidentiality issues.

Recommendation/Requirement

The Commission must update its procedures to create a recordkeeping method to ensure employees report actual hours and receive accurate compensation and benefits based on the content of their timesheets. All income payments must be properly documented and maintained. Properly maintained records help the employer prove that it complied with state and federal laws.

Commission Response

Estimated timesheets are reconciled to the final timesheets submitted. Each reconciliation shows the hours worked and any leave accrued or taken. Reconciliation documents are reviewed and approved by the Director of Finance.
DETAILED FINDINGS — PURCHASE/PROCUREMENT

Missing Procurement Documentation

Finding

The Commission failed to provide the required procurement documentation for four contracts. The Commission stated that the prior purchaser responsible for those transactions is no longer with the agency and the required documentation could not be found. Without proper histories of the public offer, decision-making criteria, vendor’s responses, evaluations of all the bids, Electronic State Business Daily postings, Centralized Master Bidders List solicitation and other supporting documentation, we are unable to determined whether the original procurement goals and objectives were achieved or if the obligatory procurement procedures were followed.

It is the responsibility of an agency to ensure the maintenance of necessary documentation for proving that each transaction resulting from the document is legal, proper and fiscally responsible. It is the responsibility of the state agency and its officers and employees to ensure the agency maintains necessary documentation. See 34 Texas Administrative Code Section 5.51(c)(1)(D).

Supporting documentation for a purchase must be made available to the Comptroller’s office in the required manner. The types of supporting documentation that the Comptroller’s office requires include: all material related to requests for proposal, requests for offer, requests for quote, requests for qualifications, requests for information, invitations for business, contracts, purchase orders (PO), invoices and receipts. See 34 Texas Administrative Code Section 5.51(e)(2)-(3) and the State of Texas Procurement Manual – Open Market Purchases and Request for Proposal. Pertinent documentation concerning contracts, including their respective procurement processes, must be retained for seven years after the expiration or termination of the instrument rendering the original term and all extensions. See Texas Government Code Section 441.1855 and Contract Management Guide – The Contract Administration File.

Recommendation/Requirement

The Commission must retain procurement documentation to support the validity of the acquisition, and demonstrate it attained the optimal value for the state of Texas prior to awarding any business and processing resulting payments.

Commission Response

The Purchaser will continue to research cost/value options in accordance with state purchasing statutes and policies. Purchase orders will include cost/value documentation with each purchase made as required. To ensure compliance, a checklist will be used by the Purchaser to ensure all documentation is attached.
Contract Exceeded Approved Department of Information Resources Waiver Amount

Finding

We identified one purchase for a unique IT good not available through a Department of Information Resources (DIR) term contract. The Commission followed the mandatory procedure to obtain authorization from the DIR prior to using a non-contracted vendor, but the purchase amount exceeded the approved waiver amount by $2,860. The Commission attributed the error to a misinterpretation of the pertinent procurement requisite.

**Texas Government Code, Chapter 2157**, requires state agencies to purchase hardware and/or software goods, as well as technical services through DIR cooperative contracts. However, **Texas Government Code, Section 2157.068**, in addition to **1 Texas Administrative Code Section 204.12**, states, if a product or service is not available via an existing purchasing program developed by DIR, a state agency can opt to use a different vendor as a secondary source when it obtains a one-time exemption request from DIR, which contains a maximum expense value that must be met, as well. See **State of Texas Procurement Manual – Selecting a Procurement Method**.

To save time and money on technology purchases, DIR has more than 750 contracts in place, all competitively bid, per Texas state requisites. If the goods or services must be acquired from a source other than DIR as set forth in its catalog, an exemption request form must be submitted to DIR. If the exemption is granted, the Commission may utilize outside vendors only for the specified sum granted. See **State of Texas Procurement Manual – Purchase of Automated Information Systems/Telecommunications Commodities and Service Purchases**.

Recommendation/Requirement

The Commission must follow the procedures outlined in the **State of Texas Procurement Manual** for IT goods or services. The Commission must obtain an exception request authorization from DIR and make it part of its applicable procurement documentation file every time it buys IT goods or services from a source other than a DIR cooperative contract, with the caveat that the agency is limited to the total amount expressed on the waiver.

Commission Response

*The agency received the waiver request for the renewal period. A second year was added and an additional waiver request was made. The second year waiver was canceled due to a misunderstanding between the Purchaser and DIR on whether the 2nd year was covered by DIR’s blanket exemption on software renewal. In the future, the agency will include the full multi-year amount in any waiver requests.*
DETAILED FINDINGS — SPECIAL REPORTS

Incorrect Billing Account Number

Finding

We ran a report outside of the sample to identify potential third-party vendor payments processed incorrectly for the audit period. During our review of this report, we identified 14 payments processed incorrectly to the state’s payment card vendor. The incorrect payments totaled $49,694.04. 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 may not be able to directly post payments to the Commission’s payment and travel card accounts. The Commission stated that it was unaware of the requirements regarding the invoice number field.

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. To avoid any account delinquency or reconciliation issues, we recommend the Commission review its payment card statements to ensure payments were posted correctly.

Commission Response

Staff is aware that only the last 10 digits of the 16-digit travel central bill account is entered in the invoice field in USAS. Management will audit this field when reviewing and releasing payment vouchers.
DETAILED FINDINGS — INTERNAL CONTROLS

Control Risk Over Expenditure Processing

Finding

We reviewed certain limitations the Commission placed on its accounting staff’s ability to process expenditures. We reviewed the Commission’s security for USAS, USPS and Texas Identification Number System (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 Commission had one employee who could process and release payments through USAS, process and release payrolls through USPS, pick up warrants from the Comptroller’s office and approve vouchers without supervision. The Commission stated that this issue occurred due to its small size and recent turnover in accounting staff. We ran a report to determine whether any of the Commission’s payment documents processed through USAS during the audited period because of the action of only one individual. The report identified two expenditures for the total amount of $8,360, that processed without oversight. The payments were reviewed during the audit and both transactions were valid expenditures. We also verified that during the audit period the Commission did not have any documents that were released by unauthorized users.

To reduce risks to state funds, the Commission should have controls over expenditure processing that segregate each accounting task to the greatest extent possible. Ideally, no individual should be able to process accounting transactions within the statewide financial systems without another person’s involvement.

Recommendation/Requirement

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

The Commission must limit user access to either enter/change voucher or release/approve batch at the time it is set up (96A screen). A supervisor or another employee should be approving the vouchers. The Commission must ensure that employees with voucher/payment entry/change/delete status in USAS are not able to also approve/release payments.

The Commission must work with Comptroller’s Statewide Fiscal Systems Security staff to set up user profiles that separate the entry and approval of payroll transactions in USPS.

The Commission must also limit user access by removing the user from the Agency Authorization for Warrant Pickup list or by removing the ability to release/approve vouchers in USAS.

During fieldwork, the Commission requested a change in their D02 profile to implement a detective control that will flag any transactions, processed and released without oversight, but will not prevent processing of transactions. See USAS Accounting and Payment Control (FPP B.005) about reducing the imposed risk to state funds.
Commission Response

As a small agency, it is important to have two employees who are able to process and release transactions in USAS and USPS. The employees that have process and release capabilities typically release each other’s documents. However, if one of the two employees is out of the office, it may become necessary for one staff member to process and release a payment without oversight. This rarely happens. If a document is entered and released by one staff member, it is reviewed and approved by the CFO or Director of Finance to ensure proper oversight.