Post-Payment Audit of the Texas Animal Health Commission
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EXECUTIVE SUMMARY

Audit scope

We audited a sample of the Texas Animal Health 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, 2016, through Aug. 31, 2017, 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

Sixty-six payroll transactions related to 20 employees were audited for compliance with the General Appropriations Act (GAA), the Texas Payroll/Personnel Resource (FPP F.027) and other pertinent statutes.

The audit of the Commission’s 20 employees personnel files identified:

- Two incorrect lump sum vacation payments.

A limited sample of voluntary contributions was also audited.

- No issues were identified.

Purchase transactions

Forty purchase transactions were audited for compliance with the GAA, eXpendit (FPP I.005), the State of Texas Procurement and Contract Management Guide and other pertinent statutes.

The audit of 40 purchase transactions identified:

- Two purchase orders created after invoice.
- Procurement process not utilized on 12 contracts.
Travel transactions

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

- No issues were identified.

Payment card transactions

Fifteen payment card transactions were audited for compliance with the GAA, eXpendit, the State of Texas Procurement and Contract Management Guide and other pertinent statutes.

The audit identified:

- Two transactions where vendor hold status not verified.

Third-party transactions

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

The audit identified:

- Twenty-eight instances of incorrect billing account number.

Security

The audit included a security review that entailed identifying any of the Commission’s employees with security in USAS 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 review identified:

- Four employees can pick up warrants from Comptroller’s office and approve paper vouchers.
- Three employees can adjust payment instructions in TINS and approve vouchers.
- Two employees can process and release payments between internal system and USAS.
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.

The review identified:

- Two capitalized/controlled assets were not tagged.

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 Aug. 26, 2014.

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

- Purchase order created after invoice.
- Bid and evaluation criteria not followed.
- Control weaknesses over expenditure processing.
- Incomplete or incorrect direct deposit forms.

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DETAILED FINDINGS — PAYROLL

Incorrect Lump Sum Vacation Payment

Finding

We identified two instances where the terminated employees’ lump sum payment for accrued vacation time were incorrectly calculated, resulting in overpayment of $179.68 and $247.74 to the employees. According to the Commission, these miscalculations were due to errors in manual calculations made during the transition from the Uniform Statewide Payroll/Personnel System (USPS) to the Centralized Accounting and Payroll/Personnel System (CAPPS).

The balance of the accrued vacation time must be completely allocated over the workdays following the effective date of the employee’s separation from state employment. Hours must be added for each state or national holiday that occurs during the period over which the time is allocated. See Texas Government Code, Section 661.064.

We provided the Commission with the schedules and calculations of the incorrect payment amounts. They are not included with this report due to confidentiality issues.

Recommendation/Requirement

The Commission should improve its current payroll processes to prevent incorrect payments of accrued vacation time. The Commission should consider recovering the amount of overpayments in accordance with Texas Government Code, Chapter 666, unless it determines it is not cost effective to do so.

Commission Response

Prior to approval of payroll for release, both Human Resources and Financial Services will each have an employee verify that all payroll payment amounts are correct. The Financial Services verifier will be different from the payroll officer working the payroll payment and also different from the employee that will release the payment.

The Commission has reviewed the amounts of the overpayment and the amount of time that has passed. After Executive evaluation, the Human Resources, Financial Services, and Legal staff hours that would be expended in attempting to recover the accrued vacation time overpayments would exceed the amount of the actual accrued vacation time overpayments. The Commission will not be pursuing the accrued vacation time overpayments.
DETAILED FINDINGS — PURCHASE

Purchase Order Created After Invoice

Finding

We identified two transactions where the purchase orders (PO) were created after the invoices were received. When a PO is created after receipt of the invoice, 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. For one of the transactions, the Commission stated that the end-user did not notify the purchaser until after the goods and services were received, thus the purchaser was unable to ensure that the procurement requirements were being followed. In addition, the second transaction was due to a lack of defined roles and responsibilities for entering requisitions into CAPPS which caused a delay in issuing the purchase order.

34 Texas Administrative Code Section 5.51(c)(1)(D) states that 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.”

Recommendation/Requirement

The Commission must ensure that documentation of the agreement is created at the time the goods or services are ordered from the vendor. Once the Commission has made a final approved agreement with the vendor, the Commission may not pay any amount in excess of the agreed upon amount unless the vendor provides additional consideration to the Commission.

Commission Response

Commission personnel, authorized to buy items on behalf of the Commission, have been reminded that the purchase documentation MUST be completed and submitted for approval prior to making the purchase. This includes education of authorized Commission personnel on entry and approval of requisitions into the CAPPS system prior to purchase of goods and services. The Commission also conducted a Basic Purchaser Training class for all Commission procurement card holders on April 18, 2018, for the purpose of purchaser education following the Commission’s Post-Payment Audit.
Procurement Process Not Utilized

We identified twelve contracts totaling $310,633.90 where the Commission did not use the correct procurement process as required by the *State of Texas Procurement and Contract Management Guide*. The following issues were identified:

- Missing Centralized Master Bidders List (CMBL)
- Request for Offer (RFO) purchase method not used
- Missing Proprietary Justification Letter
- Failure to report to the Vendor Performance Tracking System (VPTS)
- Missing System For Award Management search documentation
- Bid and evaluation criteria not followed

Finding – Missing CMBL Solicitation Documentation

We identified eight contracts where the Commission could not provide the documentation necessary to support its procurement process. The Commission was unable to provide profile printout listing all eligible suppliers dated prior to their respective awards. The Commission stated that it utilized the CMBL, but due to an oversight, it did not include a CMBL printout in the procurement file.

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 the Comptroller’s 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 and Contract Management Guide* – Centralized Master Bidders List. 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, Sections 2155.263 and 2155.264, and 34 Texas Administrative Code Section 20.107(b) and (c).

Recommendation/Requirement

All agencies and institutions of higher education must use the CMBL for all purchases, including services for which competitive bidding or competitive sealed proposals are required. The Commission must maintain evidence that the CMBL vendors were contacted and include it in the contract file, as well as the bid tabulation that supports the contracted vendor selection.
Commission Response

The Procurement department will follow the guidelines stated in the Procurement Manual on maintaining evidence that the CMBL vendors were contacted during the process.

The Commission has implemented a checklist for all purchase orders created. With the checklist in place for all purchase orders, the Commission can verify the procurement file and verify the required documentation is met for the purchase. Purchasing has implemented monthly audits of purchase orders to verify that state procurement processes are being followed and to correct any errors made.
Finding – Request for Offer Purchase Method Not Used

The Commission did not use the appropriate purchasing method for procuring information technology (IT) commodities and services for one contract. The Commission used the invitation for bid purchase method instead of using the Request for Offer (RFO) purchase method. The RFO purchase method is the appropriate method because it is specifically tailored for purchases of IT commodities and services, and allows the agency to negotiate the price of the IT contract with the vendor. The Commission stated it was an oversight.

According to the State of Texas Procurement and Contract Management Guide – DIR Cooperative Contracts Program and 34 Texas Administrative Code Section 20.391, the Request for Offers purchasing method is intended as the designated, primary purchasing method for procuring automated information systems/telecommunications commodities and services other than those under the Department of Information Resources’ IT commodity purchase program.

The RFO method may be used in three instances under applicable law if:

1. The IT commodity or service is unavailable under DIR’s IT commodity purchasing program;

2. The agency has obtained an exemption from DIR or approval from the Legislative Budget Board under Texas Government Code, Section 2157.068(1); or

3. The agency is otherwise exempt from Texas Government Code, Section 2157.068.

Recommendation/Requirement

The Commission must ensure that the most appropriate purchase method is used when purchasing IT commodities and services.

Commission Response

The wrong purchase method was used by mistake. The Commission had made note of this mistake and will begin to use the Request for Offer for all future IT commodities and services.

The Commission has implemented a checklist for all purchase orders created. With the checklist in place for all purchase orders, the Commission can verify the procurement file and verify the required documentation is met for the purchase. Purchasing has implemented monthly audits of purchase orders to verify that state procurement processes are being followed and to correct any errors made.
Finding – Missing Proprietary Justification Letter

One contract was missing the proprietary justification letter signed by the agency head or authorized agency representative. The Commission explained that it was an oversight.

A proprietary product is one where the specifications or conditions of the proposed purchase allow only one product to be supplied, and preclude any other product or supplier from meeting the specifications. When the specification limits consideration to one product or supplier, a written proprietary purchase justification must be in the procurement file.

For purchase of commodities costing $25,000 or more, the procurement file should include a formal letter on agency letterhead with an open market requisition submitted to the Statewide Procurement Division (SPD). The formal letter should include a justification, signed by the agency head or designee as provided in the Procurement Plan.

The agency letter should include:

- The justification of the need for the proprietary specification or scope of work.
- The reason competing products are not suitable.
- Any other applicable information requested by SPD to further explain the justification.

See Texas Government Code, Section 2155.067(C) and State of Texas Procurement and Contract Management Guide – Proprietary Purchases.

Recommendation/Requirement

A proprietary product or service is one that has a distinctive characteristic not shared by competing products or services. When the specification limits consideration to one manufacturer, one product or one service provider, the Commission must include a written proprietary purchase justification in the procurement file.

Commission Response

During the process of transitioning over to CAPPS, paper work was missed.

The Commission has implemented a checklist for all purchase orders created. With the checklist in place for all purchase orders, the Commission can verify the procurement file and verify the required documentation is met for the purchase. Purchasing has implemented monthly audits of purchase orders to verify that state procurement processes are being followed and to correct any errors made.
Finding – Failure to report to the Vendor Performance Tracking System

We identified seven contracts where the Commission did not report contracts and purchases over $25,000 to SPD’s Vendor Performance Tracking System (VPTS). The Commission stated it was an oversight.

The SPD administers a vendor performance tracking system for use by all ordering agencies per 34 Texas Administrative Code Section 20.115(b). The VPTS relies on participation by ordering agencies to gather information on vendor performance. All agencies shall report vendor performance on purchases over $25,000 from contracts administered by SPD or any other purchase over $25,000 made through delegated authority granted by SPD. Ordering entities are also encouraged to report vendor performance for purchases under $25,000. The requirement also calls for the provision of supporting documentation. The Vendor Performance Report (VPR) is submitted electronically, by the agency, utilizing the VPTS. See State of Texas Procurement and Contract Management Guide – Monitoring Methods-Vendor Performance Reports.

Recommendation/Requirement

The Commission must begin reporting contracts and purchases to VPTS in order to:

- identify vendors demonstrating exceptional performance
- aid purchasers in making a best value determination based on vendor past performance
- protect the state from vendors with unethical business practices
- identify vendors with repeated delivery and performance issues
- provide performance scores in four measurable categories for CMBL vendors
- track vendor performance for delegated and exempt purchases


Commission Response

The Commission has resolved the VPTS issues and has reported all purchases over $25,000, as required by the state.

The Commission has implemented a checklist for all purchase orders created. With the checklist in place for all purchase orders, the Commission can verify the procurement file and verify the required documentation is met for the purchase. Purchasing has implemented monthly audits of purchase orders to verify that state procurement processes are being followed and to correct any errors made.
Finding – Missing System for Award Management Search Documentation

We identified one contract where the Commission did not provide the required System for Award Management (SAM) search printout dated prior to its respective contract awards. The Commission stated it was an oversight.

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. The list identifies 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 and Contract Management Guide – Vendor Compliance Verifications-SAM Check.

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. This is 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

A copy of the SAM results will be attached to all procurement files.

The Commission has implemented a checklist for all purchase orders created. With the checklist in place for all purchase orders, the Commission can verify the procurement file and verify the required documentation is met for the purchase. Purchasing has implemented monthly audits of purchase orders to verify that state procurement processes are being followed and to correct any errors made.
Finding – Bid And Evaluation Criteria Not Followed

We identified one contract where the Commission did not have documentation to prove that it obtained bids from multiple vendors and was missing bid tabulations. The Commission stated that the end-user obtained the services from the vendor without notifying the purchaser, thus the purchaser was unable to ensure the procurement requirements were being followed.

The bid or proposal solicitation document is the first official evidence to the vendor community that an ordering entity intends to procure a good or service. The solicitation document serves as official instructions for the ordering entity’s requirements and how the vendor(s) will be selected. It is imperative that the agency include terms and conditions specific to the agency’s solicitation, regardless of the type of solicitation document used.

The Commission must use the open market informal solicitation method for all contracted services between $5,000 and $25,000. Open Market Formal Solicitation is used for agency-administered open market purchases of services greater than $25,000 and for commodities delegated by SPD or through statutory authority specific to an agency. See State of Texas Procurement and Contract Management Guide – Summary of Minimum Requirements for Delegated Purchases.

Failing to obtain bids from multiple vendors increases the risk of the Commission paying more for a good or service than necessary and not selecting the most optimal good or service and the most qualified provider the market can offer.

Recommendation/Requirement

The Commission must obtain bids from qualified vendors for all services exceeding $5,000. It must ensure that all bids are tabulated and the documentation related to the procurement process is retained.

Commission Response

*The Commission will only use CMBL vendors as a “first choice” if the product is available. The Commission has set up a template for all tabulated bids and has begun to document all CMBL notification for quotes/bids in the procurement file.*

*The Commission has implemented a checklist for all purchase orders created. With the checklist in place for all purchase orders, the Commission can verify the procurement file and verify the required documentation is met for the purchase. Purchasing has implemented monthly audits of purchase orders to verify that state procurement processes are being followed and to correct any errors made.*
Detailed Findings — Payment Card

Vendor Hold Status Verification Not Verified

Finding

We identified two payment card transactions over $500 where the Commission failed to verify the vendor’s warrant hold status prior to making a purchase. The Commission stated it did not have policies and procedures in place to verify vendor hold status using payment cards.

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

Recommendation/Requirement

The Commission must follow procurement procedures to ensure vendor warrant hold status is verified prior to initiating payment card purchases greater than $500.

Commission Response

Commission personnel, authorized to buy items using Commission procurement cards on behalf of the Commission, upon determining that the purchase will exceed $500, will contact the Financial Services and Purchasing divisions for warrant hold status on that vendor. Financial Services & Purchasing will inform the requester of the status via email. The email will be be retained with the PO and Voucher information. In the event that the requester did not verify warrant hold status and upon realization of this, the Financial Services department will notify employee and employee’s supervisor of violation.

The Commission has implemented a checklist for all purchase orders created. With the checklist in place for all purchase orders, the Commission can verify the procurement file and verify the required documentation is met for the purchase. Purchasing has implemented monthly audits of purchase orders to verify that state procurement processes are being followed and to correct any errors made.
DETAILED FINDINGS — THIRD-PARTY TRANSACTIONS

Incorrect Billing Account Number

Finding

We ran a report outside of the samples to identify potential payments processed incorrectly to third-party vendors during the audit period. During our review of this report, we identified 28 payments processed incorrectly to the state’s payment card vendor. The incorrect payments totaled $30,528.93. 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 payment card statements to ensure the payments were posted correctly.

Commission Response

The Commission did not know at the time of the audit that multi-vendor vouchers in CAPPS did not use the Billing Account number listed in the Header Line. Now the Commission does know, and Financial Services is now processing these transactions according to the FPP’s listed above. Financial Services staff verify that the vouchers are in accordance with the state payment disbursement policies during the voucher approval process, prior to release in CAPPS.
DETAILED FINDINGS — EXPENDITURE APPROVALS

Control Weakness Over Expenditure Processing

Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations that the Commission placed on its accounting staff’s ability to process expenditures. We reviewed the Commission’s security in USAS, USPS, TINS and voucher signature cards that were in effect on Jan. 22, 2018. We did not review or test any internal or compensating controls that the Commission may have relating to USAS, USPS, or TINS security or internal transaction approvals.

The Commission had four employees who could pick up warrants from the Comptroller’s office and were on the agency signature card, which enables employees to approve paper vouchers. Three of those same four employees could also adjust payment instructions in TINS. Additionally, two of these employees could process and release payments through USAS. The Commission explained that due to its accounting staffing limitations it had some overlapping responsibility in its transaction approval process. 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 should be able to process transactions within the statewide systems without another person’s involvement.

We ran a report to see whether any of the Commission’s payment documents were processed through USAS during the audit period because of the action of only one person; no issues were identified.

Recommendation/Requirement

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 should be able to process transactions without another person’s involvement.

We strongly recommend that the Commission implement the following recommendations:

1. The Commission must limit user access by removing the user from the Agency Authorization for Warrant Pickup list or by removing the users from the agency’s signature card.

2. The Commission must limit the access of users who can enter/change voucher or release/approve batch in USAS to view only access in TINS (PTINS02). An individual must not be able to create a vendor or change a vendor profile, create a payment and approve the payment.
3. The Commission should elect to have the document tracking control edit on the Agency Profile (D02) set to either:

   Prevent a user from releasing a batch that the same user entered or altered for the agency
   
   –OR–

   Warn the user when the same user attempts to release his or her own entries or changes. See USA Accounting and Payment Control (FPP B.005).

4. The Commission must review the preventive and detective controls over expenditure processing discussed in FPP B.005, such as the Risky Document Report (DAFR9840) which identifies documents that the same user entered or altered and then released for processing.

Commission Response

The TAHC is willing to accept the risk identified in this report because our implemented controls over expenditure processing already segregate each accounting task to the greatest extent possible. The Financial Services department at the TAHC is a small staff and due to this, it is difficult to separate all duties to the level deemed appropriate in the corrective action plan. However, there is a complete separation of duties throughout the expenditure process. The TAHC has always established user authorizations so that no individual is able to fully process transactions without another person’s involvement.

The Commission has reviewed the identified list of “individuals who have abilities to process expenditures without oversight” and has taken the following action. Two individuals have been removed from the Agency Authorization for Warrant Pickup list.

Detection of inappropriate activity will be possible as a result of agency procedures. These procedures include requiring documentation for changes to payment instructions via the completion of a Payee Change Request form, the approval of that form and entry into TINS by a second individual, and daily verifications of payments on USAS reports. Furthermore, all payment registers, (Direct Deposits, Warrants, Holds, and Interagency Transfers) are reviewed daily by multiple employees within the department in order to detect inappropriate activity.

No individual is able to enter a transaction into CAPPS, USAS, USPS, or SPRS and release within that same system. The CAPPS system prevents individuals from entering and approving the same voucher. Therefore, every payment in CAPPS will require two users for processing. Similarly, user authority for USAS, USPS, and SPRS is established so that those with release authority do not have entry capabilities within the same system. This control also prevents any individual from processing a transaction without another person’s involvement.

TAHC warrants are habitually picked up by the Statewide Procurement Division of the Comptroller of Public Accounts and delivered to TAHC daily. TAHC employees only pickup warrants in extremely rare cases. Historically, the pickup authority is only utilized to expedite the distribution of 1099s and W2s when the distribution deadline is near.