



# An Audit of the **Thirteenth Court of Appeals**

**Audit Report # 233-19-01**  
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**Glenn Hegar**  
Texas Comptroller of Public Accounts







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# Executive Summary

## Purpose and Scope

The objectives of the Thirteenth Court of Appeals (Court) audit were to determine whether:

- Contracts were procured according to applicable state laws and Comptroller requirements.
- Payments were processed according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Documentation to support those payments was appropriately maintained.
- Capital and high-risk assets were properly recorded.
- Appropriate security over payments was implemented.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from Sept. 1, 2017, through Aug. 31, 2018.

## Background

The Thirteenth Court of Appeals is composed of a chief justice and five justices. This court serves a 20 county area and maintains offices in Corpus Christi and Edinburg. This Court has intermediate appellate jurisdiction in both civil and criminal cases appealed from lower courts: in civil cases where the judgment exceeds \$100, exclusive of costs, and in criminal cases, except in post-conviction writs of habeas corpus and where the death penalty has been imposed.

Thirteenth Court of Appeals website

<http://www.txcourts.gov/13thcoa>

## Audit Results

The Court generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with payroll or travel transactions. However, the Court should consider making improvements to its purchasing, contracting and procurement, internal control structure, and security processes.

The auditors noted no recurring issues from the prior post-payment audit issued in June 2014. An overview of audit results is presented in the following table.

## Table Summary

Area	Audit Question	Results	Rating
Payroll Transactions	Did payroll transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Contract and Procurement Process</u>	Did contracts and related payments comply with the GAA, Court internal policies and procedures, best practices, and pertinent statutes?	One contract used an incorrect procurement method.	Compliant, Findings Issued
<u>Purchase Transactions</u>	Did purchase transactions comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> <li>• Purchase order created after invoice.</li> <li>• Missing receiving documentation.</li> </ul>	Compliant, Findings Issued
Travel Transactions	Did travel transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Internal Control Structure</u>	Are incompatible duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	One employee with overlapping security access.	Control Weakness Issues Exist
<u>Security</u>	Did all system access to process payments comply with all the Comptroller security guidelines?	One employee retained the security to expend funds after authority expired.	Control Weakness Issues Exist
<u>Targeted Analysis</u>	Did the Court report supplemental historically underutilized businesses (HUB) information to the Comptroller in accordance with Texas Government Code, Section 2161.122?	The Court did not report supplemental HUB information to the Comptroller.	Compliant, Findings Issued





## Key Recommendations

Auditors made several recommendations to help mitigate risk arising from control weaknesses. Key recommendations include:

- The Court must follow the procedures outlined in the [State of Texas Procurement and Contract Management Guide](#). In addition, the Court must ensure that if a product is offered by Texas Correctional Industries (TCI) or WorkQuest, but the Court opts to purchase it through a different method, appropriate waivers or exceptions are documented in the procurement file.
- The Court must ensure that documentation of the purchase is prepared when goods or services are ordered from the vendor. In addition, the Court must ensure no payment is made without sufficient supporting documentation.
- To reduce risk to state funds, the Court must establish controls over expenditure processing that separate each accounting task to the greatest extent possible.
- The Court must ensure compliance with the security revocation requirements for terminated employees.
- The Court must ensure supplemental historically underutilized business (HUB) and non-HUB information is reported to the Comptroller's office.



# Detailed Findings

## Payroll Transactions

Auditors developed a representative sample of 10 employees (40 payroll transactions totaling \$136,211.86) to ensure the Court complied with the GAA, relevant statutes and Comptroller requirements. Audit tests revealed no exceptions in these transactions.

## Contract and Procurement Process

Two contracts totaling \$35,286.20 and \$13,771.64 were selected for this audit. All phases of contract development, planning, solicitation, award, payments and monitoring were reviewed for compliance with the [\*State of Texas Procurement and Contract Management Guide\*](#), pertinent statutes and best practices. Audit tests revealed the following exceptions in the procurement process.

Contract	Amount	Type of Service	Procurement Cycle				
			Planning	Procurement Method Determination	Vendor Selection	Contract Formation/Award	Contract Management
Contract A	\$35,286.20	Furnishings, Equipment and Other	No exemptions	Incorrect procurement method used	No exemptions	No exemptions	No exemptions
Contract B	\$13,771.64	Online Research/Reference Material	No exemptions	No exemptions	No exemptions	No exemptions	No exemptions

## Incorrect Procurement Method Used

Auditors identified four transactions totaling \$33,783.02 with one vendor where the Court did not use the correct procurement method for the purchase of office furniture.

For two of the transactions, the Court purchased products using a Statewide Procurement Division (SPD) Texas Multiple Award Schedule (TXMAS) contract, and for the other two transactions, the Court contracted directly with the vendor to purchase goods.

In all four instances, the Court procured products available through TCI, WorkQuest, or SPD term contracts without obtaining the required waivers or exceptions.

The Court indicated that purchasing staff is being retrained in the correct procurement process, including proper waiver documentation to be included in purchasing files.



The [State of Texas Procurement and Contract Management Guide](#) – Procurement Methods – Procurement Method Identification Process notes that incorrect procurement methods do not provide best value to the state and can be more expensive and less efficient than using the correct method. In the worst case, it may result in a void contract that must be re-solicited.

In addition, the [State of Texas Procurement and Contract Management Guide](#) describes the process for selecting the appropriate procurement method for purchases, and details the following resources:

- TCI.
- State Use Program — WorkQuest (formerly TIBH Industries).
- SPD term contracts.
- SPD TXMAS contracts.

## Recommendation/Requirement

The Court must follow the procedures outlined in the [State of Texas Procurement and Contract Management Guide](#) for these goods. In addition, the Court must ensure that if a product is offered by TCI or WorkQuest, but the Court uses a different method to purchase it, appropriate waivers or exceptions are included in the procurement file.

## Court Response

*The accountant has reviewed the procedures outlined in the State of Texas Procurement and Contract Management Guide. If a product is offered by Texas Correctional Industries (TCI) or WorkQuest but the Court opts to purchase it through a different method, appropriate waivers or exceptions will be documented in the procurement file. The accountant attended Advanced Expenditure Processing & Documentation training provided by the Comptroller's office in July 2019 to ensure a thorough and complete understanding of Texas state purchasing requirements.*

## Purchase Transactions

Auditors developed a representative sample of 20 purchase transactions totaling \$108,483.64 to ensure the Court complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed the following exceptions in purchase transactions.



## Purchase Order Created After Invoice

Auditors identified one instance where the purchase order (PO) was not created until after the invoice was received. The Court's procedures mandate that the PO must be created and approved before goods or services are ordered. The Court indicated it had created a PO before ordering the goods or services, but the original PO was misplaced. The Court reissued a new PO dated after the invoice date.

Without a PO at the time the goods or services are ordered, it is difficult for the vendor to ensure that the state agency obtained the goods or services it agreed to purchase beforehand. See [34 Texas Administrative Code Section 5.51\(c\)\(1\)\(D\)](#), which states a state agency and its officers and employees must maintain the necessary documentation for each purchase document to prove each payment resulting from the document is legal, proper and fiscally responsible.

## Recommendation/Requirement

The Court must prepare documentation of an agreement before goods or services are ordered from a vendor. Once the Court has made a final approved agreement with the vendor, the Court may not pay any amount in excess of the agreed amount, unless the agreement is amended due to the vendor providing a new benefit or consideration.

In addition, the Court must maintain proper documentation to verify payments are valid and to ensure a proper audit trail.

## Court Response

*The accountant understands the importance of documenting each purchase properly. A purchase order was misplaced and was reissued after the invoice date. The accountant has reviewed her processes to ensure that all supporting documentation is retained.*

## Missing Receiving Documentation

Auditors identified one purchase transaction missing documentation of receipt of purchased goods. The Court indicated its process includes documenting the receipt of goods and services, but in this instance the receiving documentation was misplaced.

Without proper documentation, auditors could not determine whether the information entered into the Uniform Statewide Accounting System (USAS) was an accurate reflection of the intended purchases made. Proper documentation must be maintained to verify payments are valid and to ensure a proper audit trail.

As provided by [34 Texas Administrative Code Section 5.51\(c\)\(1\)\(D\)](#), each state agency, its officers and employees must maintain the necessary documentation for each purchase document to prove that each payment resulting from the document is legal, proper and fiscally responsible.





Supporting documentation including purchase orders, requisitions, contracts, invoices and receipts must be made available to the Comptroller's office in the manner required. See [34 Texas Administrative Code Section 5.51\(e\)\(2\)-\(3\)](#).

## Recommendation/Requirement

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The Court must ensure no payment is made without sufficient supporting documentation, and must also create and maintain supporting documentation for audit review. The Court should review and update its procedures for maintaining supporting documentation for all purchases.

## Court Response

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*Additional staff training has been conducted and authorized purchasers have reviewed the Court's Procurement Procedure. Employees have reviewed their processes to ensure that receiving documentation is retained.*

## Travel Transactions

Auditors developed a representative sample of 20 travel transactions totaling \$3,874.13 to ensure the Court complied with the GAA, relevant statutes and Comptroller requirements. Audit tests revealed no exceptions in these transactions.

## Internal Control Structure

### Control Weakness Over Expenditure Processing

The review of the Court's segregation of duties was limited to obtaining reports identifying current users' access. The audit tests revealed the following exceptions in user access.

Auditors reviewed certain limitations that the Court placed on its accounting staff's ability to process expenditures. The audit did not review or test any internal or compensating controls that the Court might have relating to USAS, Standardized Payroll/Personnel Reporting System (SPRS), Centralized Accounting and Payroll/Personnel System (CAPPS) or Texas Identification Number System (TINS) security or internal transaction approvals.

The Court had one employee who could:

- Enter/edit a payment voucher in USAS and release/approve a payment in USAS.
- Process/edit payroll in USAS and release payroll in USAS.
- Pick up warrants from the Comptroller's office and approve paper vouchers.



The Court received a schedule of these findings during fieldwork, and indicated that its current process does not allow for one individual to perform both roles. However, one employee was set up in USAS with multiple roles to ensure payments are processed in case another employee is not available to perform one of the key functions. As a result of the audit, the Court indicated it has implemented mitigating controls and amended its procedures to further ensure that one individual does not process payments without another person's involvement. Auditors verified the Court's approved procedures during the audit.

Auditors also ran a report to determine whether any of the Court's payment documents processed through USAS during the audit period because of the action of only one individual. No issues were identified.

## Recommendation/Requirement

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To reduce risks to state funds, agencies must 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.

Auditors strongly recommend that the Court implement the following:

1. Elect to have the document tracking control edit on the Agency Profile (DØ2) 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 [USAS Accounting and Payment Control \(FPP B.005\)](#).
2. Review the preventive and detective controls over expenditure processing discussed in [USAS Accounting and Payment Control \(FPP B.005\)](#), such as the Risky Document Report (DAFR9840), which identifies documents that the same user entered or altered and then released for processing.
3. Work with Comptroller's office Statewide Fiscal Systems security staff to set up user profiles that separate the entry and approval of payroll transactions in USAS.
4. Limit user access by removing the user from the Court's signature card or by removing the user from the Authorization for Warrant Pickup list.



## Court Response

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*The Court has contacted the Comptroller's Appropriation Control Officer (ACO) to implement the additional controls mentioned in the recommendations. The ACO is submitting the change for Agency Profile (D02). Once the change is complete, this will implement the document tracking control edit to prevent a user from releasing a batch that the same user entered or altered.*

*The Risky Document Report (DAFR9840), which identifies documents that the same user entered or altered and then released for processing, has been implemented.*

*User profiles that separate the entry and approval of payroll transactions in USAS have been requested. The accountant will enter payroll and the clerk will approve payroll transactions in USAS.*

*The Court has submitted a Letter of Authorization for Data Change (LOA) to remove one of two employees currently authorized for warrant pickup. This will result in only one employee with access for warrant pickup.*

## Security

The audit included a security review to identify any of the Court'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 security can be revoked in a timely manner. The audit tests revealed the following security exception.

### Failure To Timely Notify Comptroller's Office To Remove Employee From Signature Card

The Court did not timely notify the Comptroller's office about the termination of one employee designated by the Court to approve its expenditures. The Court stated it will implement a process to notify the Comptroller's office in advance of termination to ensure that an employee is removed from the voucher signature cards within the five day time frame after termination.

The lack of timely notification meant the employee retained USAS security for nine days after termination. The employee could have approved expenditures submitted to the Comptroller's office during that time. Any expenditure approved under the employee's expired authority would have been an unapproved expenditure. Auditors ran a report to determine whether the employee approved expenditures after termination and found no post-termination approvals.





Whenever a designated employee terminates employment with an agency, the Comptroller's office must receive timely notification of the termination. See [34 Texas Administrative Code Section 5.61\(k\)](#). Any officer or employee may send the Comptroller's office that notification. See [34 Texas Administrative Code Section 5.61\(k\)\(3\)\(B\)](#).

## Recommendation/Requirement

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The Court must ensure compliance with the security revocation requirements for terminated employees. The Court must also ensure that the person responsible for sending these notifications to the Comptroller's office is aware of the termination before or when the termination is effective, and will follow up to ensure the notification was received and the revocation occurred.

## Court Response

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*This was an oversight. The accountant's termination checklist has been updated to ensure that all employee access to statewide systems is terminated appropriately. The accountant was unaware that notification of termination could be submitted in advance.*

## Targeted Analysis

### Failure To Report Supplemental Historically Underutilized Businesses (HUB) Information to the Comptroller's Office

Auditors reviewed the annual HUB reports for fiscal 2018 and 2017 and determined the Court failed to report supplemental HUB and non-HUB data to the Comptroller as required by Texas Government Code, Section 2161.122. The Court specifically did not report the number of bids and proposals received from HUB and non-HUB vendors, and did not report the number of competitive and noncompetitive contracts awarded to HUB and non-HUB vendors. The Court indicated that the information was not reported because it did not have access to the HUB reporting system to enter the HUB and non-HUB data. During the audit, the Court obtained access to the system, and will enter HUB information into the system for future HUB reports.

In accordance with [Texas Government Code, Section 2161.122](#), state agencies must report:

- The total dollar amount of purchases and payments made under contracts awarded to HUBs.
- The number of businesses participating in any issuance of state bonds by the agency.
- The number of contracts awarded to businesses with regard to the agency's acquisition, construction, equipping of a facility or implementation of a program.



- The number of bids, proposals or other applicable expressions of interest made by HUBs with regard to the agency's acquisition, construction or equipping of a facility or implementation of a program.

In addition, [HUB Reporting Procedures](#) states that supplemental HUB information must be reported by ethnicity and gender, and must be submitted online through the HUB reporting system.

### Recommendation/Requirement

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The Court should enhance its processes to ensure supplemental HUB and non-HUB information is reported to the Comptroller as required by [Texas Government Code, Section 2161.122](#).

### Court Response

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*The accountant was unaware of this reporting obligation and did not have access to the HUB reporting system. This oversight has been corrected and the Court now has access to the system. All future supplemental HUB and non-HUB reports will be reported to the Comptroller as required. This report has been added to the accountant's list of reporting obligations to ensure timely reporting.*



# Appendices

## Appendix 1 — Objectives, Scope, Methodology, Authority and Team

### Audit Objectives

The objectives of this audit were to:

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of any of the following:
  - Uniform Statewide Accounting System (USAS),
  - Uniform Statewide Payroll/Personnel System (USPS),
  - Standardized Payroll/Personnel Reporting System (SPRS),
  - Human Resource Information System (HRIS) or
  - Centralized Accounting and Payroll/Personnel System (CAPPS).
- Verify payments are made in accordance with certain applicable state laws.
- Verify assets are in their intended locations.
- Verify assets are properly recorded for agencies and institutions of higher education that use the State Property Accounting (SPA) system.
- Verify voucher signature cards and systems security during the audit period are consistent with applicable laws, rules and other requirements.

### Audit Scope

Auditors reviewed a sample of the Thirteenth Court of Appeals (Court) payroll, contract, purchase and travel transactions that processed through USAS from Sept. 1, 2017, through Aug. 31, 2018, to determine compliance with applicable state laws.

The Court receives appendices with the full report, including a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

*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.*

The audit provides a reasonable basis for the findings set forth in this report. The Court should implement the recommendations listed in the Detailed Findings of this report. It is the Court'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 Court's documents comply in the future. The Court must ensure that the findings discussed in this report are resolved.





## **Audit Methodology**

The Expenditure Audit section uses limited sampling to conduct a post-payment audit.

## **Fieldwork**

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based on the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcation or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what action or additional procedures would be appropriate.

## **Audit Authority**

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

## **Audit Team**

*Max Viescas, CPA, Lead Auditor*

*Jesse Ayala*



## Appendix 2 — Definition of Ratings

### Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Noncompliant
Restrictions on auditor's ability to obtain sufficient evidence to complete all aspects of the audit process. Causes of restriction include but are not limited to: <ul style="list-style-type: none"><li>• Lack of appropriate and sufficient evidentiary matter.</li><li>• Restrictions on information provided to auditor.</li><li>• Destruction of records.</li></ul>	Scope Limitation

### Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented.  These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Noncompliant

### Repeat Finding Icon Definition



This issue was identified during the previous post-payment audit of the agency.