



# An Audit of the Texas Department of Agriculture

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# Executive Summary

## Purpose and Scope

The objectives of the Texas Department of Agriculture (Department) 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.
- Financial transactions 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 June 1, 2017, through May 31, 2018.

## Background

The Texas Legislature established the Texas Department of Agriculture in 1907. The agency's key objectives are to promote production agriculture, consumer protection, economic development and healthy living. The agriculture commissioner oversees the agency and is elected every four years.

Texas Department of Agriculture  
website

<https://www.texasagriculture.gov/>

The Department is a diversified state agency that provides value-added services through regulatory and marketing initiatives. The Department is headquartered in Austin and has five regional service offices, two sub-offices, three laboratories and five livestock export facilities.

## Audit Results

The Department generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with grants or system security. However, the Department should consider making improvements to its payroll, purchase, travel, payment card and contract processes. The auditors reissued five findings from the last audit conducted at the Department related to failure to report contracting information, prompt payment and scheduling, controls over expenditure processing, and missing confidential treatment of information acknowledgement forms. Auditors originally issued these findings in October 2016. An overview of audit results is presented in the following table.

# Table Summary

Area	Audit Question	Results	Rating
<u>Payroll Transactions</u>	Did payroll transactions comply with the GAA, pertinent statutes and Comptroller requirements?	Overpayment of salary amount	Compliant, Findings Issued
<u>Purchase/ Procurement and Contract Transactions</u>	Did purchase and contract transactions comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> <li>• Missing contract development and contract management documentation.</li> <li>• Missing Conflict of Interest Disclosure form.</li> <li>• Missing Texas Ethics Commission Certificate of Interested Parties (Form 1295).</li> <li> Failure to report to the Legislative Budget Board.</li> <li> Failure to report to the Vendor Performance Tracking System.</li> <li>• Missing vendor compliance verifications.</li> <li> Prompt payment and payment scheduling errors.</li> </ul>	Compliant, Findings Issued
Grant Transactions	Did grant transactions comply with all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Travel Transactions</u>	Did travel transactions comply with all pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> <li>• Lack of conservation of state funds.</li> <li>• State travel card and contract not used.</li> <li>• Improper payment of taxes/surcharges.</li> <li>• Incorrect processing of non-overnight meals.</li> <li>• Meals and lodging not payable.</li> </ul>	Compliant, Findings Issued



Repeat Finding



Area	Audit Question	Results	Rating
<u>Payment and Travel Card Transactions</u>	Did payment and travel card transactions comply with all pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> <li>• Internal policy not followed.</li> <li>• State contract not used.</li> <li>• Missing warrant/ payment hold check.</li> <li>• Missing documentation.</li> <li>• Misuse of travel card.</li> </ul>	<b>Noncompliant</b>
Security	Did all system access over payment comply with all Comptroller security guidelines?	No issues	<b>Fully Compliant</b>
<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? Was the CTIA form signed before employee access to the financial systems?	<ul style="list-style-type: none"> <li> Control weakness over expenditure processing.</li> <li> Confidential Treatment of Information Acknowledgement form missing.</li> </ul>	<b>Compliant, Findings Issued</b>
<u>Fixed Assets and SPA Report</u>	Were tested assets in their intended location and properly reported in the State Property Accounting System? Were missing and stolen assets reported properly and was documentation maintained?	Missing documentation	<b>Compliant, Findings Issued</b>
<u>Targeted Analysis</u>	Did the department process payments to/from other agencies in accordance with Comptroller requirements?	Interagency transaction voucher not used	<b>Compliant, Findings Issued</b>

 Repeat Finding



## Key Recommendations

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

- The Department must enhance its internal controls to prevent incorrect payroll payments.
- The Department must ensure that it keeps all documents relating to procurement and contracts on file, such as:
  - Planning and contract management documentation.
  - Conflict of interest forms.
  - Texas Ethics Commission's Certificate of Interested Parties (Form 1295).
  - Documentation of reporting contract awards and purchases to the Legislative Budget Board (LBB).
  - Documentation of reporting purchases over \$25,000 to the vendor performance tracking system (VPTS).
  - Documentation of vendor compliance verification before purchase, contract award, extension or renewal.
- The Department must review its procedures to ensure it both submits payment information for processing and releases payments in a timely manner to avoid incurring interest liabilities. The Department must verify that proper due dates are entered to ensure that, if interest is due, it is paid correctly to vendors.
- The Department must exercise caution in its use of state funds and ensure its expenditures are fiscally responsible. The Department must review all travel transactions relating to mileage reimbursement to ensure the mileage claimed does not exceed the number of miles of the most cost-effective route between two points.
- The Department must ensure all of its future airfare service is charged to the state-issued travel credit card and that the state contract is used unless an exception is noted. The Department should strengthen its internal procedures to ensure non-overnight meal expenses are properly processed on a payroll document. The Department should caution its employees and approval staff to verify travel reimbursements only include travel expenses incurred while on state business.
- The Department should ensure its staff is properly trained on all policies and procedures relating to the payment card. Before selecting a procurement method, the Department should determine if the items it needs to purchase are offered under existing term contracts. The Department must check a vendor's warrant/ payment hold status for all payment card purchases over \$500 before a purchase. Results of the check must be retained as evidence and included in the purchase file.



- The Department must ensure it abides by the procurement procedures stipulated in the [\*State of Texas Procurement and Contract Management Guide\*](#). The Department must ensure it has the appropriate documentation trail for all expenditures.
- The Department must ensure all state-issued travel card transactions are properly reviewed, and ensure its travel cards are used in accordance with the applicable rules and requirements.
- The Department should review the controls over expenditure processing and segregate each task to the maximum extent possible to ensure no individual is able to process payments without oversight.
- The Department should ensure its staff is properly trained in the State Property Accounting System (SPA) requirements for documenting disposal of property.
- The Department must use the Recurring Transaction Index (RTI) provided by other agencies it does business with and provide an RTI number to other agencies to process payments to the Department using Interagency Transaction Vouchers (ITVs).



# Detailed Findings

## Payroll Transactions

Auditors developed a representative sample of 272 payroll transactions totaling \$435,577.62 from a group of 30 employees to ensure the Department complied with the GAA, the [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. The review also included a report that identifies possible employee overpayment. Additionally, a limited sample of 19 voluntary contribution transactions was audited with no exceptions identified. Audit tests revealed the following exceptions for the payroll transactions.

## Overpayment of Salary Amounts

In a report generated outside of the sample, auditors identified two employees with incorrect salary payments resulting in an overpayment of \$154.84.

One retired employee incorrectly received longevity pay. The other employee received payment at incorrect salary rates. The Department stated these errors occurred due to a new payroll officer not understanding longevity policies and a leave without pay/extended sick offset in an improper period.

Auditors provided the Department with the schedule and calculation of the incorrect payment amount. Those documents are not included with this report due to confidentiality issues. See [Texas Payroll/Personnel Resource – Overpayments](#) and [34 Texas Administrative Code Section 5.40\(b\)](#).

## Recommendation/Requirement

The Department must enhance its internal controls to prevent incorrect payments. The Department should consider recovering the amount of overpayment in accordance with [Texas Government Code, Chapter 666](#), unless it determines it is not cost effective to do so.

## Department Response

*TDA agrees with the recommendations. Prior management was not requiring the Payroll Accountant to review and address USPS discrepancy and overpayment reports. Current Payroll Accountant is now reviewing and addressing items on the USPS discrepancy and overpayment reports.*



## Purchase/Procurement and Contract Transactions

Auditors developed a representative sample of 25 purchase/procurement transactions totaling \$5,385,726.72, as well as 11 transactions totaling \$1,173,532.01 belonging to two vendor contracts valued at \$2,036,831.88 and \$4,007,543, to ensure the Department complied with the GAA, [eXpendit \(FPP 1.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed the following exceptions in the purchase/procurement and contract transactions.

Contract	Amount	Type of Service	Procurement Cycle				
			Planning	Procurement Method Determination	Vendor Selection	Contract Formation/Award	Contract Management
Contract A	\$2,036,831.88	Advertising Services – Awareness Campaign	Missing contract development documentation	No exceptions	<ul style="list-style-type: none"> <li>Missing Conflict of Interest Disclosure forms.</li> <li>Missing Texas Ethics Commission Certificate of Interested Parties (Form 1295).</li> </ul>	No exceptions	<ul style="list-style-type: none"> <li>Missing contract management documentation.</li> <li>Failure to report to the LBB.</li> <li>Prompt payment and payment scheduling errors.</li> </ul>
Contract B	\$4,007,543.00	Purchased Contracted Services – Services for the Monitoring of the Condition of Lubricants	No exceptions	No exceptions	<ul style="list-style-type: none"> <li>Missing Conflict of Interest Disclosure forms.</li> <li>Missing Texas Ethics Commission Certificate of Interested Parties (Form 1295).</li> </ul>	No exceptions	No exceptions

### Missing Contract Development and Contract Management Documentation

Auditors reviewed two contracts. One contract lacked sufficient planning documentation, such as a contract developer’s contract administration plan (CAP or acquisition plan), needs assessment, cost estimate, internal approval for solicitation and contract award. Both contracts lacked a contract manager’s quality assessment plan (QAP) and a Master Contract File Checklist.



The acquisition plan and the other planning documents listed above ensure the procurement is solicited, negotiated, executed and managed in a way that delivers best value to the state. It also ensures the contract requirements are satisfied, the goods and services are delivered in a timely manner, and the financial interests of the agency are protected.

The QAP is a tool that assists the contract manager in assessing risk and monitoring deliverables after contract execution. The QAP includes contract monitoring schedules and findings reports. The contract manager is responsible for maintaining a master contract file of records produced throughout the life of the contract, including all extensions and addendums. See [State of Texas Procurement and Contract Management Guide](#) – Procurement Planning and Contract Management Sections.

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## Recommendation/Requirement

To ensure successful procurements, appropriate transition from contract development to management and monitoring, and best practices in contracting, the Department should develop and maintain procurement and contract documentation such as the CAP and QAP.

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## Department Response

*TDA agrees with the recommendation. In FY18 Procurement & Contracting introduced a series of planning questionnaires that currently provide the foundation for the solicitation. Buyers do not begin a formal solicitation without the planning documents and a planning team meeting. Further, to reduce the risk that decisions are not reduced to writing and for compliance with recent legislative changes, we have developed a file documentation checklist which will be used as additional quality control.*

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## Missing Conflict of Interest Disclosure Forms

Auditors found that neither contract had the required Conflict of Interest Disclosure form. A state agency employee or official must disclose any potential conflict of interest specified by state law or agency policy that is known by the employee or official at any time during the procurement process or term of a contract with a private vendor. See [Texas Government Code, Section 2261.252\(a\)](#) and [\(a-1\)](#).

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## Recommendation/Requirement

The Department must ensure all employees or officials involved in procurement or contract management complete disclosure forms confirming the absence of a conflict of interest for any contract with a private vendor or bid for the purchase of goods or services from a private vendor. See [Texas Government Code, Section 2261.252](#).



## Department Response

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*TDA agrees with the recommendation. As an additional quality control step, and for compliance with recent legislative changes, we have developed a file documentation checklist which should reduce the risk of error.*

## Missing Texas Ethics Commission Certificate of Interested Parties (Form 1295)

Auditors determined both contracts were missing the required Texas Ethics Commission (TEC) Certificate of Interested Parties (Form 1295). Certain contracts valued at \$1 million or more require completion of Form 1295. Before contract award, the vendor must give the agency a completed signed form with the certificate of filing number and date. The contract developer then acknowledges the form on the TEC website. It is best practice to include a reference to Form 1295 in the solicitation to allow the vendor to gather the pertinent information early in the process.

## Recommendation/Requirement

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The Department must ensure any vendor involved in contract awards of \$1 million or more completes Form 1295 located on the [TEC website](#).

## Department Response

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*TDA agrees with the recommendation. As an additional quality control step and for compliance with recent legislative changes, we have developed a file documentation checklist which should reduce the risk of error.*

## Failure To Report to the Legislative Budget Board

Auditors identified four purchase transactions where the Department failed to report contracts to the LBB and one contract where the Department failed to report an amendment of extension to the LBB. These issues occurred due to high staff turnover. According to the [General Appropriations Act \(GAA\), Article IX, Section 7.04\(c\)](#), a state agency or institution of higher education must report to the LBB all contracts greater than \$50,000 to which the agency was a party in the past fiscal year.

## Recommendation/Requirement

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The Department must report contract awards and purchases to the LBB to comply with the [General Appropriations Act \(GAA\), Article IX, Section 7.04\(c\)](#) and the [LBB Contract Reporting Guide](#).



## Department Response

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*TDA agrees with this recommendation. In anticipation of implementing the state's Centralized Accounting, Payroll, Personnel System in FY20, Procurement & Contracting staff undertook an extensive quality control review of the LBB reports filed by TDA. TDA is also using the LBB reporting features in CAPPs, which will reduce the risk of error in FY20 and beyond.*

## Failure To Report to the Vendor Performance Tracking System

Auditors identified five purchase transactions where the Department failed to report contracts and purchases over \$25,000 to the Vendor Performance Tracking System (VPTS). These errors occurred due to high staff turnover. The Statewide Procurement Division (SPD) administers VPTS for use by all ordering agencies per [34 Texas Administrative Code, Section 20.115](#). VPTS relies on agency participation to gather information on vendor performance. Ordering entities are also encouraged to report vendor performance for purchases under \$25,000. Agencies submit the Vendor Performance form (VPF) electronically via the SPD web application portal. See [Texas Government Code, Section 2155.089](#) and [Section 2262.055](#).

## Recommendation/Requirement

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The Department must report purchases over \$25,000 to VPTS to identify suppliers demonstrating exceptional performance, aid purchasers in making a best value determination based on vendor past performance, and protect the state from vendors with unethical business practices. Reporting also identifies vendors with repeated delivery and performance issues, provides performance scores in four measurable categories for Centralized Master Bidders List (CMBL) vendors, and tracks vendor performance for delegated and exempt purchases. See [State of Texas Procurement and Contract Management Guide – Contract Management – Vendor Performance Reporting](#).

## Department Response

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*TDA agrees with the recommendation. In FY2019 a buyer position was designated to oversee vendor performance reporting, and to assist program areas in documenting performance. A practice of reviewing performance before contract renewal was also implemented. A new form was developed that expands on the VPTS website categories, allowing buyers to identify any additional measures that may need to be negotiated as part of the renewal process.*



## Missing Vendor Compliance Verifications

Auditors identified one purchase transaction where the Department was unable to provide a complete checklist of vendor compliance verification (VCV) documents. The agency must provide a screen print showing each verification was performed. The Department stated that this issue occurred due to high staff turnover.

## Debarment Check

Auditors noted one purchase transaction where the Department did not search the [Debarred Vendor List](#) before entering into the contract. The contract developer (purchaser) must check the Debarred Vendor List posted on the Comptroller's website to ensure the vendor has not been debarred by SPD. An agency must not award a contract to a debarred vendor. SPD may bar a vendor from participating in state contracts for substandard performance, material misrepresentations, fraud or breach of contract with the state or a specific agency. The Comptroller may also bar a vendor for repeated unfavorable performance reviews under [Texas Government Code, Section 2155.089](#) or repeated unfavorable classifications under [Texas Government Code, Section 2262.055](#). If a vendor is barred, SPD determines the period of debarment.

## System for Award Management Check

Auditors noted one purchase transaction where the Department did not search the System for Award Management (SAM) database before entering into the contract. The agency must check the SAM database to verify the vendor is not excluded from grant or contract participation at the federal level. A contract cannot be awarded to a vendor named on the U.S. Treasury Department, Office of Foreign Assets Control's master list of specially designated nationals and blocked persons (with limited exceptions set forth in the order). See [Presidential Executive Order 13224](#).

## Recommendation/Requirement

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The Department must conduct a VCV search before any purchase, contract award, extension or renewal. Results from the specified website must be retained as evidence and included in the procurement file.

## Department Response

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*During the audit period, the Procurement & Contracting Office experienced complete turnover of staff. This led to a greater number of errors until staffing stabilized. While human error cannot be completely erased, checks have been consistently performed with current buyer staff since late FY18. Additionally, all buyers have been informed that documentation must be as noted in the State of Texas Procurement & Contract Management Guide appendix, and no other proof of compliance will be accepted in a post payment audit.*



*In addition, we are updating a documentation checklist for consistency with recent legislation. The checklist will include the vendor eligibility checks, further reducing the risk of error.*

## Prompt Payment and Payment Scheduling Errors

### Late Payment

According to the prompt payment law, Texas Government Code, Section 2251.021(a), a governmental entity's payment is overdue on the 31st day after the later of:

- The date the governmental entity receives the goods under the contract;
- The date the performance of the service under the contract is completed; or
- The date the governmental entity receives an invoice for the goods or service.

The Comptroller's office computes and automatically pays any interest due under the prompt payment law when the Comptroller's office is responsible for paying the principal amount on behalf of the agency. See [Texas Government Code, Section 2251.026](#) and [eXpendit – Prompt Payment](#).

During the audit period, the Department paid vendors \$4,899.72 in prompt payment interest. In the sample, auditors identified one purchase transaction that was paid late, but interest of \$133.23 was not paid to the vendor. According to the Department, it thought these were federal funds that were not subject to the prompt payment law.

### Early Payment

[Texas Government Code, Section 2155.382\(d\)](#) authorizes the Comptroller's office to allow or require state agencies to schedule payments that the Comptroller's office will make to a vendor. The Comptroller's office must prescribe the circumstances under which advance scheduling of payments is allowed or required; however, the Comptroller's office requires advance scheduling of payments when it is advantageous to the state.

Auditors identified two instances where the Department paid early for three purchase transactions and three contract transactions. According to the Department, it thought these were federal funds that were not subject to the prompt payment law.

### Recommendation/Requirement

The Department must review its procedures to ensure it both submits payment information for processing and releases payments in a timely manner to avoid incurring interest liabilities. In addition, the Department must verify that proper due dates are entered to ensure that, if interest is due, it is paid correctly to vendors. See [eXpendit \(FPP I.005\)](#).



## Department Response

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*TDA agrees with the recommendations. Prior management had given staff incorrect information to not pay interest or to schedule accounts payable vouchers which are federally funded. Current management has reinforced that the prompt payment law is applicable to all vouchers regardless of funding type.*

## Grant Transactions

Auditors developed a sample of four grant transactions totaling \$11,600,756.26 to ensure the Department complied with state laws and regulations pertaining to grants/loans and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

## Travel Transactions

Auditors developed a sample of 50 travel transactions totaling \$22,552.59 to ensure the Department complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed some minor instances of noncompliance which were reported to the Department in a separate management report. Audit tests revealed the following exceptions in the travel transactions samples.

## Lack of Conservation of State Funds

Auditors identified eight travel transactions where the Department did not conserve state funds. The Department reimbursed two employees for incorrect mileage. One employee did not take the fastest route and did not document an exception to justify the longer route. The other employee claimed mileage to her residence rather than headquarters during business hours, resulting in overpayments totaling \$29.96. According to the Department, this error was due to an approving authority oversight. Another employee traveled to Abilene by personal vehicle and was reimbursed mileage, then while there, rented a vehicle for site visits, costing the Department \$95.26 more than if the employee had just rented a vehicle for the entire trip. In addition, this employee rented vehicles from the airport and when in Austin, the employee's headquarters, would park a personal vehicle at the airport and request reimbursement for parking, resulting in additional costs of \$49 for the two trips included in the sample. The Department stated that this error was due to an approving authority oversight. In another instance, the Department reimbursed an employee for travel to a site within 20 miles of the employee's headquarters, resulting in \$282.50 in hotel costs for this employee. The Department stated that this travel was approved due to traffic considerations, time of day and the duration of the compliance observation taking place. A state employee is entitled to be reimbursed for mileage incurred to conduct state business. The reimbursement may not exceed the number of miles of the most cost effective, reasonably safe route between two duty points. See [Textravel – Transportation – Mileage in Personal Vehicle](#).



Additionally, in a report generated outside the sample, auditors identified five non-employee travel transactions where the Department did not conserve state funds. The Department reimbursed three board members for mileage to attend meetings rather than renting vehicles, costing the agency \$781.74. According to the Department, staff was unaware that advisory committee members need to consider the difference in cost between mileage reimbursement and rental cars when traveling for the agency.

According to [Texas Government Code, Section 660.007\(a\)](#), state agencies should ensure that each travel arrangement is the most cost effective considering all relevant circumstances.

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### Recommendation/Requirement

The Department must exercise caution in its use of state funds and ensure that its expenditures are fiscally responsible. The Department must review all travel transactions relating to mileage reimbursement to ensure the mileage claimed does not exceed the number of miles of the most cost effective route between two points.

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### Department Response

*TDA agrees with the recommendation. A revised travel policy has been approved by executive management, published on TDA internet and broadcast to all TDA employees. Peer review process is being exercised so that a second set of eyes is on the travel voucher before it goes to management for final approval. The approving manager has also received additional training.*

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### State Travel Card and Contract Not Used

Auditors identified one travel transaction where the Department did not use a contracted state travel agency or an agency travel card for an airline ticket for a trip to Washington, DC. The employee used his personal credit card and requested reimbursement, resulting in an overpayment of \$450 for a round trip ticket. According to the Department, this error was due to an approving authority oversight. Contract travel services through the State Travel Management Program must be used unless an approved exception exists. The exception must appear on or be included with the travel voucher. See [34 Texas Administrative Code Section 20.408](#). In addition, travel services for airfare must be charged using the state travel credit card. See [34 Texas Administrative Code Section 20.413](#).

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### Recommendation/Requirement

The Department must ensure all future airfare is charged to the state-issued travel credit card and that the state contract is used unless an exception is noted.



## Department Response

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*TDA agrees with the recommendation. TDA has revised its travel reimbursement policy. This revised policy has been established and communicated to all TDA staff. Below is an excerpt from the policy.*

### *4.1. Airline Travel*

- a. Per the Comptroller, airline reservations must be made on state issued travel charge card accounts. (SWABIZ is charged to the corporate card.)*
- b. TDA has contracted airfare with Southwest Airlines through SWABIZ. The company ID is used when setting up an account with SWABIZ online at swabiz.com.*

## Improper Payment of Taxes/Surcharges

Auditors identified one travel reimbursement for taxes that were not payable. The employee paid for a hotel room at a rate higher than the state rate; when the Department reduced the reimbursement it did not recalculate the tax amount and overpaid the employee. The Department stated that this error occurred due to an accounting mistake. See [Government Code, Section 660.003\(e\)](#).

## Recommendation/Requirement

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The Department should increase training for the individuals who review travel vouchers to ensure that only eligible expenses are reimbursed.

## Department Response

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*TDA agrees with the recommendation. Peer review process is being exercised so that a second set of eyes is on the travel voucher before it goes to management for final approval. The approving manager has also received additional training.*

## Incorrect Processing of Non-Overnight Meals

Auditors identified one transaction where the employee reimbursement for meals was incorrectly processed for non-overnight travel. The employee was reimbursed for meals during non-overnight travel using a travel document instead of a payroll document. As a result, payroll taxes were not withheld for this transaction. While it was noted on the voucher that it was to be processed as a payroll document when it was entered in the system, it was processed as a travel document. According to the Department, this error occurred due to the infrequency of the agency processing this type of payment.



A state employee may be reimbursed for non-overnight meal expenses, but if an employee on non-overnight travel receives reimbursement for meals, this amount is considered income and must be reported on the employee's W-2. See [Texttravel – Meals and Lodging – Non-Overnight Travel](#). Processing the payment on a payroll document allows withholding of Federal Insurance Contribution Act (FICA) and federal income taxes.

## Recommendation/Requirement

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The Department should strengthen its internal procedures to ensure non-overnight meal expenses are properly processed on a payroll document.

## Department Response

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*TDA agrees with the recommendation. Additional responsibility has been placed on the Accounting Manager to ensure that any further actions required on travel vouchers are completed, especially if payroll is to be impacted.*

## Meals and Lodging Not Payable

Auditors identified one instance of an incorrect travel reimbursement. The traveler was scheduled to report to the State Fair of Texas for duty at 3 p.m. on Saturday. According to an email included in the travel voucher, she left on Friday evening to conduct personal business in the morning before reporting for duty. The employee was reimbursed \$170.96 for meals and lodging while conducting personal business. The Department stated the error occurred due to an approving authority oversight. According to [Texttravel](#), a state agency may reimburse a travel expense only if the purpose of the travel clearly involves official state business and is consistent with the agency's legal authority.

## Recommendation/Requirement

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The Department should caution its employees and approval staff to verify travel reimbursements only include travel expenses incurred while on state business. The Department should obtain reimbursement from the employee unless it determines it is not cost effective to do so.

## Department Response

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*TDA agrees with the recommendation. A revised travel policy has been approved by executive management, published on TDA internet and broadcast to all TDA employees. Peer review process is being exercised so that a second set of eyes is on the travel voucher before it goes to management for final approval. The approving manager has also received additional training.*



## Payment and Travel Card Transactions

Auditors developed a representative sample of 59 payment card transactions totaling \$29,078.34 and 13 travel card transactions totaling \$409.70 to ensure the Department complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed the following exceptions in the payment and travel card transactions sample.

### Internal Policy Not Followed

Auditors found 41 payment card transactions where the Department did not follow its internal policies and procedures for the use of the card. The payment card policy states that purchasers must check the historically underutilized business (HUB) status of each vendor, document it, and complete a SAM check for each purchase. These steps were not completed for these transactions. The Department stated that this error occurred due to staff turnover and the lack of resources to provide training to field staff with procurement cards.

### Recommendation/Requirement

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The Department should ensure that its staff is properly trained on all policies and procedures that relate to the payment card.

### Department Response

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*TDA agrees with this recommendation. Current cardholders will be required to recertify that the manual has been read in order to continue with card access. Compliance will be monitored and corrective action taken. TDA's credit card manual has been updated and is ready for card-holder review. A new form has been developed to further reduce the risk of non-compliance. Finally, the manual update ensures the language for internal procedures clearly reflects the difference between a requirement and an encouragement.*

### State Contract Not Used

Auditors identified three payment card transactions in the sample totaling \$645.76 where the Department did not use term contracts to purchase the goods. The Department stated that this error occurred due to staff turnover and the lack of resources to provide training to field staff with procurement cards.

The [State of Texas Procurement and Contract Administration Guide](#) – Term Contracts encourages agencies to use term contracts whenever possible. Agencies are not allowed to use delegated authority to purchase goods or services that are available through a statewide term contract unless the quantity required is less than the minimum order quantity specified in the relevant term contract. Agencies can view term contracts online at [Texas SmartBuy](#).



## Recommendation/Requirement

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Before selecting a procurement method, the Department should review existing term contracts to determine if the items the Department needs to purchase are offered under term contracts.

## Department Response

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*TDA agrees with this recommendation. Implementation of the statewide Centralized Accounting, Payroll & Personnel System on 9.1.19 is providing more consistency in procurement processes, including the review and utilization of term contracts according to CPA rules. Agency dollars spent on term contracts with HUB vendors do not count towards agency HUB goal requirements. To the extent that utilization of a term contract is encouraged, when not required, TDA may choose to purchase with HUB vendors as part of its required good faith effort toward meeting agency goals.*

## Missing Warrant/Payment Hold Check

Auditors identified nine payment card transactions totaling \$6,754.35 where the Department's employees failed to check the vendor for warrant/payment hold status before purchasing. The Department stated this error occurred due to staff turnover and the lack of resources to provide training to field staff with procurement cards.

The purchaser must check the warrant hold status of the vendor when a payment card purchase is over \$500. Although payments made through the Uniform Statewide Accounting System (USAS) are automatically checked for holds and the system identifies payments issued to persons with outstanding state debt, this does not relieve an agency from conducting the warrant hold status check on payment card payments in accordance with [Texas Government Code, Section 2252.903](#). See [eXpendit – Restricted Expenditures – Persons Indebted to the State](#).

## Recommendation/Requirement

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The Department must check the vendor's warrant/payment hold status before the purchase for all payment card purchases greater than \$500. Results of the check must be retained as evidence and included in the purchase file.

## Department Response

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*TDA agrees with this recommendation. Current cardholders will be required to recertify that the manual has been read in order to continue with card access. Compliance will be monitored and corrective action taken. TDA's credit card manual has been updated and is ready for card-holder review. A new form has been developed to further reduce the risk of non-compliance. Additional instructions on performing the vendor hold check will be provided to cardholders and applicants.*



## Missing Documentation

Auditors identified one payment card transaction totaling \$805.90 missing documentation of compliance with requirements, such as the documentation trail for expenditures. The Department stated that it is unable to locate the documentation. Without proper invoices, purchase orders, contracts, receipts and other supporting records, auditors could not determine whether the information entered into USAS was an accurate reflection of the purchase made or whether the proper procurement process was followed.

It is the responsibility of an agency, its officers and employees to maintain documentation to prove each payment resulting from a purchase is legal, proper and fiscally responsible. See [34 Texas Administrative Code Section 5.51\(c\)\(1\)\(D\)](#).

Supporting documentation for a purchase document must be made available to the Comptroller's office in the manner required. For more information, see [34 Texas Administrative Code Section 5.51\(e\)\(2\)-\(3\)](#). Such documentation must be maintained until at least the end of the second appropriation year after the appropriation year in which the transaction was processed in USAS. See [34 Texas Administration Code Section 5.51\(e\)\(5\)\(A\)](#). Agencies are also required to adhere to the [Texas Government Code, Sections 2155.074, 2156.009 and 2161.253](#), to obtain the best value for every purchase and maintain adequate documentation.

## Recommendation/Requirement

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The Department must ensure it follows the procurement procedures stipulated in the [State of Texas Procurement and Contract Management Guide](#). The Department must maintain appropriate documentation for all expenditures. Detailed good/service product, pricing and receiving information must be documented and retained to verify proper billing and justification of payment.

## Department Response

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*TDA agrees with the recommendation. TDA will ensure proper documentation for expenditures is included with all reimbursable vouchers. Current management has reinforced adherence to state administrative code.*

## Misuse of Travel Card

During a review of 13 travel card transactions outside of the sample, auditors identified two instances where an employee used a state-issued travel card to reload her gift card balance at a popular beverage vendor. Further, between June 2017 and May 2018 the employee reloaded the card 40 times for \$715. The Department stated that it did not reimburse the employee for these charges and indicated that because the card was issued individually under the credit of the holder, and individually paid by the



cardholder, the department historically did not require the itemized bill under a concern for privacy. This policy has been amended and a statement for all charges on individually issued travel cards is printed monthly and reviewed by Accounts Payable. Any non-reimbursable charges are brought to the attention of the accounting manager. The employee in question is no longer employed by the Department.

A credit card issued to a public servant under a program where the card is issued at the direction and under the control of the state of Texas for state purposes may not be used for personal expenditures or any other type of expenditure not reimbursable as a state business expense under state law. See [Ethics Advisory Opinion No. 147 – Texas Ethics Commission](#). According to [34 Texas Administrative Code Section 20.413\(d\)\(1\)–\(3\)](#), state agencies should cancel state travel credit cards when an employee uses the card for personal transactions or for any other misuse.

## Recommendation/Requirement

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The Department must ensure all state-issued travel card transactions are properly reviewed, and ensure its travel cards are used in accordance with applicable rules and requirements. The current state credit card administrator, Citibank, offers reports that can assist the Department in monitoring its credit card usage. The Department must offer periodic training to its credit card holders on proper use of state-issued credit cards.

## Department Response

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*TDA agrees with the recommendation. The Accounting department is getting the report monthly from Citibank to monitor credit card usage to verify that all charges are TDA travel related.*

## Security

The audit included a security review to identify any of the Department'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. Audit tests revealed a minor instance of noncompliance which was reported to the Department in a separate management report. Audit tests revealed no security exceptions.

## Internal Control Structure

As part of the planning for the post-payment audit, auditors reviewed certain limitations that the Department placed on its accounting staff's ability to process expenditures. Auditors reviewed the Department's security in USAS, Texas Identification Number System (TINS) and voucher signature cards in effect on Jan. 24, 2019. Audit tests revealed the following segregation of duties exceptions.



## Control Weakness Over Expenditure Processing

Auditors reviewed the Department's signature cards and security for USAS, the Uniform Statewide Payroll/Personnel System (USPS) and TINS. Auditors did not review or test any internal or compensating controls that the agency may have relating to security or internal transaction approvals in USAS, USPS or TINS.

During the audit period, auditors identified employees with multiple security conflicts, including:

- Two employees could process and release payroll in USPS.
- One employee could approve/release manual and electronic payments in USAS and update vendor/employee profiles and direct deposit information in TINS. The same employee could also release payroll in USAS.
- Three employees could process and release payroll and change employee direct deposit information in USPS.
- Two employees could hire an employee and process and release payroll in USPS.
- One employee could approve paper vouchers and change the warrant hold status of a vendor in TINS.

Auditors ran a report to see whether any of the Department's payment documents were processed through USAS during the audit period because of the action of only one person; no issues were identified. Auditors also verified the Department did not have any documents that were released by unauthorized users during the audit period. To reduce risks to state funds, the Department should maintain 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. According to the Department, as a result of the audit it has made the recommended changes and these issues have been resolved.

### Recommendation/Requirement

The Department 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.

Auditors strongly recommend the Department implement the following recommendations:

1. The Department should 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 USPS.



2. The Department should limit the access of users who can create and approve electronic and paper vouchers to view only access in TINS (PTINS02).
3. The Department must limit the access of users who can release payroll in USAS to view only access in TINS (PTINS02).
4. The Department must limit the access of users who can process and release payroll and change employee direct deposit information in USPS.
5. The Department should work with Comptroller's office Statewide Fiscal Systems security staff to set up user profiles that separate the ability to hire an employee in USPS and to process/release payroll transactions in USPS.
6. The Department should ensure that employees who can approve an expedited payment (by being on the signature card) do not have the ability to change the warrant hold status of a vendor in TINS.

### Department Response

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*TDA agrees with the recommendation. The Accounting Director will review controls over expenditure processing and segregation of duties on a bi-annual basis.*

### Confidential Treatment of Information Acknowledgement Form Missing

As a routine part of the security review, auditors reviewed the Department's compliance with the requirement that all agency users of the Comptroller's statewide financial systems complete a Confidential Treatment of Information Acknowledgment (CTIA) form. When a new user needs access to the Comptroller's statewide financial systems, the agency's security coordinator has the user read and sign the CTIA form. A reviewing official signs the agreement and the agency's security coordinator keeps it on file for as long as the user has access to the systems, plus five years. In the review, auditors identified two instances where CTIA forms were completed for individuals after they had accessed the Comptroller's statewide financial systems. The Department stated this error was due to the original forms being lost and replaced with new forms.

### Recommendation/Requirement

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The Department should ensure the original CTIA form is kept on file as long as the user has access to the statewide financial systems, plus the five-year retention period.

### Department Response

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*The two employees who had access dates prior to the date on their authorization forms were prior to 2013 or earlier. Since that time, a new USAS security coordinator has been put in place with a backup and the Information Technology Division has tightened our security, controls and processes to ensure access is not granted until the TDA CTIA coordinator or their backup reaches out to the individual to secure a authorized signature.*



*To TDA's knowledge, there have been no new CTIA findings of any users after 2013 as our new policies and processes in place have addressed the previous issues.*

*Once completed, forms are filed in a secured and locked repository for reference and audit. TDA will continue to review and refine this process as necessary to ensure the utmost security is applied when making any CTIA request.*

## Fixed Assets

The audit included a review of a limited number of fixed assets acquired by expenditures during the audit period to test for proper tracking in the Department's internal system. All assets tested were in their intended location, properly tagged and properly recorded in the SPA system. However, audit tests revealed the following exception for disposed property.

## Missing Documentation

Auditors identified 19 missing assets that were disposed of without a Missing, Damaged or Stolen Property Report (Form 74-194) on file. The Department stated that inventory items were identified as missing on the annual physical inventory and coded in the SPA system correctly. However, Form 74-194 was not filled out for the items at that time. The Department is changing its process to ensure proper documentation at the time of coding in the SPA system.

Agencies with assets reported as missing must have a copy of Form 74-194 on file to show they investigated to determine if employee negligence was involved. If employee negligence occurred, the form must be sent to the Office of the Attorney General and retained on file. If there is no employee negligence, the form is retained on file for the current reporting period plus three fiscal years. See [SPA Process User's Guide \(FPP N.005\) – General Policies – Missing or Stolen Property](#).

## Recommendation/Requirement

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The Department should ensure its staff is properly trained in the SPA requirements for documenting disposal of property.

## Department Response

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*The department will be changing its process to make sure assets that were identified as missing on its physical inventory will have the Missing, Damaged or Stolen Report (Form 74-194) completed and on file. At the time of the findings these items were coded correctly in the SPA system.*



## Targeted Analysis

Auditors reviewed the Department's procedure to comply with state rules and regulations regarding transactions between state agencies and institutions of higher education. Audit tests revealed the following exception in the targeted analysis report.

### Interagency Transaction Voucher (ITV) Not Used

In two reports generated outside of the sample, auditors identified 29 payments where the Department did not use the ITV process properly. According to the Department, these were the result of entry error and because the licensing office was not aware of the ITV requirement for state agencies. The Department did not include the agency Recurring Transaction Index (RTI) on the invoices sent to licensees. The licensing office is revising invoices to include the department's RTI. ITVs result in cost savings by transferring funds between agencies rather than printing warrants for deposit in the state's treasury. See [Interagency Payments and Receipts for Goods and Services \(APS 014\) \(FPP A.028\)](#).

### Recommendation/Requirement

The Department must use the RTIs provided by other agencies it does business with and provide an RTI number to other agencies to process payments to the Department using ITVs.

### Department Response

*TDA agrees with the recommendation. For payments being made by TDA the vouchers are being reviewed more carefully. For receipts of revenue from other agencies the Accounting department has worked with the Licensing department to make sure the RTI number is communicated to remitting agency.*



# 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) or
  - Human Resource Information System (HRIS).
- 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 Texas Department of Agriculture (Department) payroll, purchase and travel transactions that processed through USAS and USPS from June 1, 2017, through May 31, 2018, to determine compliance with applicable state laws.

The Department 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 Department should implement the recommendations listed in the Detailed Findings of this report. It is the Department'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 Department's documents comply in the future. The Department 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**

*Amanda Price, CFE, CTCD, Lead Auditor*

*Alberto Lañas, MBA, CTCD, CTCM*

*Max Viescas, CPA*



## 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.