



An Audit of the Texas Department of State Health Services

Audit Report # 537-17-04
May 13, 2020

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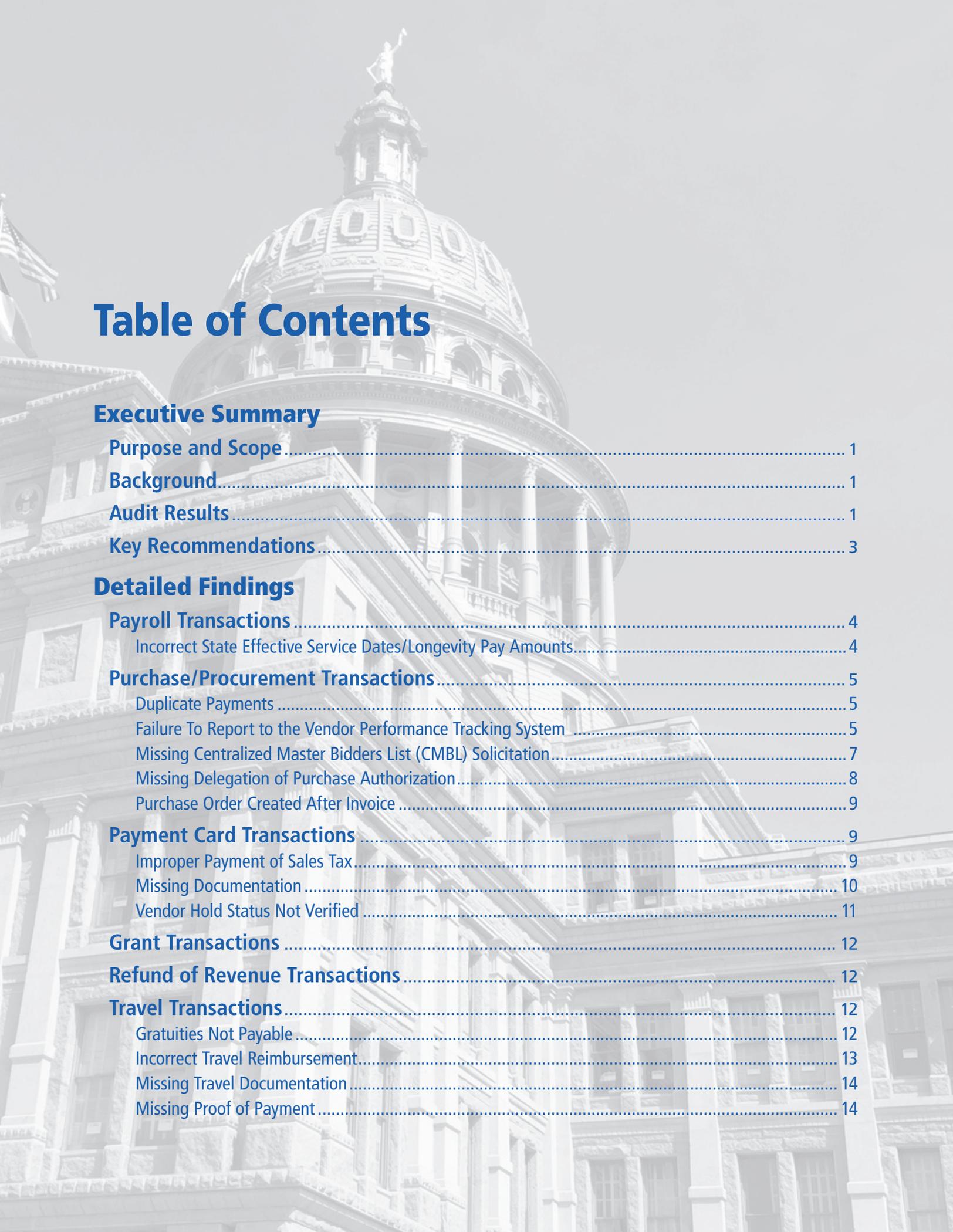


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Executive Summary

Purpose and Scope

The objectives of the Texas Department of State Health Services (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.
- 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 Dec. 1, 2015, through Nov. 30, 2016.

Background

The mission of the Texas Department of State Health Services is to improve the health, safety and well-being of Texans through good stewardship of public resources and a focus on core public health functions.

Texas Department of State Health Services website

<https://www.dshs.texas.gov/>

Audit Results

The Department generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with grants, refund of revenues or property management records. However, the Department should consider making improvements to its payroll, travel, purchase/procurement, payment card and internal control processes.

Auditors noted five recurring issues from the prior post-payment audit issued in March 2013. 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?	Incorrect state effective service date/ longevity pay.	Compliant, Findings Issued
<u>Purchase/ Procurement Transactions</u>	Did purchase/procurement and contract-related payments comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> • Duplicate payments. • Failure to report to the Vendor Performance Tracking System. • Missing Centralized Master Bidders List solicitation • Missing delegation of purchase authorization. • PO created after invoice. 	Compliant, Findings Issued
<u>Payment Card Transactions</u>	Did payment card purchase transactions comply with all pertinent statutes and Comptroller requirements?	 Improper payment of sales tax.  Missing documentation. <ul style="list-style-type: none"> • Failure to perform vendor hold verification. 	Compliant, Findings Issued
Grant Transactions	Did grant payments comply with state laws and regulations pertaining to grants and other pertinent statutes?	No issues	Fully Compliant
Refund of Revenue Transactions	Did refund of revenue transactions comply with all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Travel Transactions</u>	Did travel transactions comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> • Gratuities not payable.  Incorrect travel reimbursement.  Missing documentation. • Missing proof of payment. 	Compliant, Findings Issued



Repeat Finding



Area	Audit Question	Results	Rating
<u>Security</u>	Are Department employees who are no longer employed or whose security was revoked properly communicated to the Comptroller's office?	 Failure to timely request security access removal.	Compliant, Findings Issued
<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?	Two employees with overlapping security access for multiple duties.	Compliant, Findings Issued
Fixed Assets	Were tested assets in their intended locations and properly reported in the State Property Accounting system?	No issues	Fully Compliant



Repeat Finding

Key Recommendations

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

- The Department must ensure its operating procedures include internal quality control measures and procedures for entering employee data correctly to prevent errors in state effective service dates, longevity calculations and payments.
- The Department should review invoices/contracts and perform cost benefit analysis comparisons to determine if an early payment discount is beneficial to the state. In addition, the Department must strengthen its current procedures to identify duplicate invoices or payments to avoid making a duplicate payment to a vendor.
- The Department should maintain appropriate documentation and perform applicable reviews, procurement activities and verifications as required by the [State of Texas Procurement and Contract Management Guide](#).
- The Department must review all travel transactions to ensure all information and totals submitted for reimbursement are correct, verifiable and do not include unallowable expenses.
- The Department must enhance its controls to ensure compliance with system users' termination requirements and ensure timely deactivation of system access.
- The Department must implement additional controls over expenditure processing that segregate each accounting task to the greatest extent possible.



Detailed Findings

Payroll Transactions

Auditors developed a sample of 761 payroll transactions totaling \$2,675,360.03 from a group of 100 employees to ensure the Department complied with the GAA, [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Additionally, auditors reviewed a limited sample of 34 voluntary contribution transactions with no exceptions identified. Audit tests revealed the following exceptions in payroll transactions.

Incorrect State Effective Service Dates/Longevity Pay Amounts

Auditors identified two employees with incorrect state effective service dates. The incorrect dates resulted in an underpayment of \$4,800 and an overpayment of \$1,420.

The Department's procedures include verifying prior state service when an employee indicates previous state employment in an application or resume. One employee listed the prior employment in the application, which the Department failed to verify. The Department entered the prior service incorrectly in the system for the second employee, giving additional state credit that the employee was not eligible for. In both instances, the Department stated that the state service information was not updated correctly during the hiring process.

The Department verified the additional prior state service, corrected the entries in the Centralized Accounting and Payroll/Personnel System (CAPPs), and compensated the underpaid employee. The second employee terminated employment, so the Department did not seek to recoup the longevity overpayment.

When an agency hires an employee, the agency must research whether the employee has previous state employment. If prior employment exists, the agency must confirm the amount of lifetime service credit and properly record it or risk underpaying longevity pay. See [Texas Payroll/Personnel Resource – Non-Salary Payments – Longevity Pay](#).

Recommendation/Requirement

The Department should review its controls and personnel records to ensure accuracy and completeness, as well as guarantee that its internal operating procedures include quality control measures that will detect and prevent incorrect compensation to an employee. See [34 Texas Administrative Code Section 5.40\(c\)\(2\)](#).



Department Response

For each employee hired, Form HR0114, Prior State Service form, is submitted to prior agencies as self reported by the employee and reconciled for input into the Centralized Payroll/Personnel System.

Purchase/Procurement Transactions

Auditors developed a sample of 123 purchase transactions totaling \$14,749,576.45 to ensure the Department complied with the GAA, [eXpendit \(FPP I.005\)](#) and pertinent statutes. Audit tests revealed the following exceptions in these transactions.

Duplicate Payments

In a report generated outside the sample, auditors identified two duplicate payments for \$163.86 and \$323.28 during the audit period. The Department agreed that the transactions were duplicate payments. In one instance, the invoice date was entered incorrectly, which prevented the system from detecting the duplicate invoice. In the second instance, the invoices were received in two different areas and processed separately. Accounting staff did not catch the duplication. In both instances, the Department sought and received reimbursement from the vendors.

Recommendation/Requirement

The Department must strengthen its procedures to identify duplicate invoices to avoid making duplicate payments to vendors. Also, the Department should ensure its accounting staff reconciles invoices and payments to prevent duplicate payments.

Department Response

The Department agrees with the finding. The Department has provided training to strengthen its current procedures to identify duplicate invoices, as well as increased the level of awareness of the Team Leads that provide approvals. Training includes prioritizing identification of duplicate invoices when they are received in the Accounts Payable mailbox and entered into the Invoice Tracking System by the Invoice Team.

Failure To Report to the Vendor Performance Tracking System

Auditors identified two purchase transactions where the Department did not report vendor performance to the Statewide Procurement Division's (SPD) Vendor Performance Tracking System (VPTS), although the Department's policy requires performance reports to be submitted to VPTS. The Department stated it will conduct training regarding this requirement to improve VPTS reporting compliance.



The SPD administers a VPTS for 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 must report vendor performance on purchases over \$25,000 from contracts administered by the SPD or any other purchase over \$25,000 made through delegated authority granted by SPD. Ordering agencies are also encouraged to report vendor performance for purchases under \$25,000. The requirement also calls for the provision of supporting documentation. Agencies submit the Vendor Performance Report (VPR) electronically via the VPTS. See [State of Texas Procurement and Contract Management Guide](#) – Monitoring Methods – Vendor Performance Reports.

Agencies must retain contracts for seven years after the expiration or termination of the instrument according to its terms. See [Texas Government Code, Section 441.1855](#) and [State of Texas Procurement and Contract Management Guide](#) – Records Retention.

Recommendation/Requirement

The Department must report contracts and purchases to VPTS to:

- Identify vendors with 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 five measurable categories for Centralized Master Bidders List (CMBL) vendors.
- Track vendor performance for delegated and exempt purchases.

See [State of Texas Procurement and Contract Management Guide](#) – Contract Close-Out.

Department Response

HHS PCS Management agrees with the finding.

The first HHS Contract Management Handbook (CMH) published in April 2016 included the requirement to report vendor performance information to the Comptroller of Public Accounts Vendor Performance Tracking System (VPTS) at contract close-out or termination for contracts with a total value of \$25,000 or more that did not result from an open enrollment. In addition, the HHS CMH provided instruction to report vendor performance subsequent to critical performance issues, including contracts less than \$25,000 or resulting from an open enrollment. Although the HHS CMH continues to be updated as needed, information pertaining to the requirement to report vendor performance to the VPTS has remained consistent with Texas Government Code §2262.055 and Texas Administrative Code Title 34, Part I, Chapter 20, Rule §20.509. To document vendor performance, HHSC and DSHS staff complete a PCS 147, Vendor



Performance Reporting, which is available on the PCS web page. Training related to the HHS CMH and the PCS 147 is provided to HHSC and DSHS staff as updates are deployed. PCS also manages an e-mailbox at PCS_VPTS@hhsc.state.tx.us for submission of the PCS 147 and to address staff questions and provide technical assistance. Beginning in March 2018, PCS provides a monthly report of contracts meeting the reporting requirement to HHSC and DSHS program areas.

Missing Centralized Master Bidders List (CMBL) Solicitation

The Department did not perform a CMBL search of all eligible suppliers for one transaction before making a \$5,384.08 purchase. The Department's process includes searching the CMBL, but did not conduct the search in this instance.

The CMBL is a database of registered vendors, their contact information and a list of their goods and services. Unless exempted by law, agencies must use the CMBL for all procurements subject to the authority of the SPD. Agencies must also use the CMBL to gather information for noncompetitive procurement processes and vendor performance data.

Agencies must print the awarded vendor's CMBL profile showing the expiration date for file documentation. See [State of Texas Procurement and Contract Management Guide](#) – Centralized Master Bidders List section. Agencies must retain proof that they checked the CMBL system before awarding or renewing a contract. See [Texas Government Code, Sections 2155.263](#) and [2155.264](#) and [34 Texas Administrative Code Section 20.107\(g\)](#).

Recommendation/Requirement

To ensure compliance with state procurement laws and rules, 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 Department must include a copy of the dated CMBL search results in the procurement file.

Department Response

HHS PCS Management agrees with the finding.

In July of 2018 the Office of Compliance and Quality Control (CQC) on behalf of Procurement and Contracting Services updated The PCS 160 – HHS Solicitation Checklist – RFPs, RFAs, and RFQs to include all requirements to be completed for large procurements. In addition, in February of 2019 the policies and procedures for open market purchases and IFB templates were updated as well. CQC created a Legal Entity Required Screening Guide that includes instructions and web addresses to use to complete the required vendor checks, outlined on the PCS checklists. These documents were uploaded to the PCS SharePoint folder for purchasers to access. Policy and procedure trainings were conducted in November and December 2019 for PSC staff. The policies and procedures and checklist will continue to be updated as needed to ensure compliance.



Missing Delegation of Purchase Authorization

Auditors identified two purchase transactions over the Department's delegated authority of \$100,000. The Department could not provide the SPD delegation of purchase letter, which is required for any contracted service over \$100,000. The Department stated that it failed to request delegation authority for the two contracts.

Agencies do not have delegated authority to procure services with an estimated purchase price or contract value over \$100,000. For such contracts, the submission of a delegation request and its solicitation through the Procurement Oversight and Delegation portal is mandatory. See [State of Texas Procurement and Contract Management Guide](#) – SPD Review and Delegation Process – Delegation Request for Services Exceeding \$100,000. Agencies are also required to comply with [Texas Government Code, Chapter 2155](#).

Recommendation/Requirement

The Department must obtain delegation of purchasing authorization for service contracts in excess of its delegated authority. Unless the Department receives such delegation in writing from SPD, it should not proceed with the solicitation because such a contract may be rendered voidable.

Department Response

HHS PCS Management agrees with the finding.

HHS PCS purchasing staff knows to obtain delegation from the Statewide Procurement Division (SPD) when services exceed 100K.

In July of 2018 the Office of Compliance and Quality Control (CQC) on behalf of Procurement and Contracting Services updated The PCS 160 – HHS Solicitation Checklist – RFPs, RFAs, and RFQs to include all requirements to be completed for large procurements. In addition, in February of 2019 the policies and procedures for open market purchases and IFB templates were updated as well. CQC created a Legal Entity Required Screening Guide that includes instructions and web addresses to use to complete the required vendor checks, outlined on the PCS Checklists. These documents were uploaded to the PCS SharePoint folder for purchasers to access. The policies and procedures and checklist will continue to be updated as needed to ensure compliance.



Purchase Order Created After Invoice

Auditors identified one purchase transaction where the Department created a purchase order (PO) after receiving the invoice. Without a PO issued to the vendor at the time the goods were ordered, it is difficult for the Department to ensure it was not overcharged or billed for goods or services beyond those it agreed to. The Department was aware that staff did not issue a PO before making the purchase.

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

Recommendation/Requirement

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

Department Response

HHS PCS management agrees with finding.

PCS purchasers are aware that after the fact purchases are unacceptable purchases and should not be processed. HHSC has reviewed such purchases and addressed the issue in 2017. PCS management will ensure to send out communication informing staff of unacceptable purchases.

Payment Card Transactions

Auditors developed a sample of 50 payment card transactions totaling \$29,200.19 to ensure the Department complied with the GAA, [eXpendit \(FPP 1.005\)](#) and pertinent statutes. Audit tests revealed the following exceptions in these transactions. One transaction that was not reported to VPTS is included in the above purchase findings.

Improper Payment of Sales Tax

Auditors identified two payment card transactions for which the Department paid state sales tax totaling \$15.71. The payments were made due to oversight.

These charges are not payable with state funds. The purchase, lease or rental of a taxable item to an exempt organization is tax exempt when the organization or an authorized agent pays for the item and provides the vendor with an exemption certificate. See [34 Texas Administrative Code Section 3.322\(g\)\(2\)](#).



Recommendation/Requirement

The Department must review invoices to ensure they are correct and do not include taxes. In addition, the Department must review expenses for legality and accuracy before payment. The Department should obtain a refund from the vendor for the amount of the taxes.

Department Response

The Department agrees with the finding. The AP Manager meets weekly with the Managers and Team Leads to discuss audit issues and training needs. Lead Accountants train staff that the Department is strictly prohibited from paying state sales tax. If a card holder does pay taxes in error it is their responsibility to obtain a vendor credit for those taxes. The AP Manager has the Team Leads review the receipts as an extra layer of review when processing the Procurement Card transactions to ensure that the agency's processes are followed.

Missing Documentation

Auditors identified five payment card transactions where the Department could not document compliance with pertinent requirements, such as providing documentation for all expenditures. One transaction lacked an invoice; another lacked receiving documentation to verify receipt of purchased goods. Another transaction lacked documentation of the amount paid for the transactions. The Department was unable to locate the documentation for these transactions.

Additionally, two transactions lacked documentation to verify that the Department's employees attended conferences. The Department stated that its policy does not require proof of attendance for conferences or trainings. However, this documentation is essential for ensuring that the employee attended the conference.

It is the responsibility of an agency, its officers and employees to maintain documentation to prove that 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. Supporting documentation that the Comptroller's office may require include a PO, requisitions, contracts, invoices and receipts. For more information, see [34 Texas Administrative Code Section 5.51\(e\)\(2\)-\(4\)](#). Such documentation must be maintained at least until the end of the second appropriation year after the appropriation year in which the transaction was processed by the Uniform Statewide Accounting System (USAS). See [34 Texas Administration Code Section 5.51\(e\)\(5\)\(A\)](#).



Recommendation/Requirement

The Department must create and maintain sufficient supporting documentation for all payments, and provide the documentation if requested for audit review. The Department should review and update its procedures for maintaining documentation for all purchases.

Department Response

The Department agrees with these findings. These Payment Card findings have been addressed in the Claims Unit monthly meetings attended by the Unit Manager, the A/P Management Team, Team Leads and Team staff. Desktop training aids have been created to ensure that the supporting documentation is attached to the Transaction Log when it is received. The Managers and Lead Accountants will ensure staff is trained properly and continue to monitor the payment process through the review and approval of the Payment Card transactions. The AP Team has begun to require proof of attendance at conferences for all attendees. This will ensure the conference was attended and meet the Comptroller requirements.

Vendor Hold Status Not Verified

Auditors identified one payment card transaction where the Department failed to verify the vendor's warrant hold status before making the payment. The Department stated its agency policies require checking vendor warrant hold status, but an oversight occurred in this instance.

State agencies must check a vendor's warrant hold status if the transaction involves a payment card purchase over \$500. A state agency may not use a payment card and may not reimburse an officer or employee for the use of a payment card for a purchase from a vendor if a payment to it is prohibited by statute. See [34 Texas Administrative Code Section 5.57\(g\)\(6\)](#).

USAS automatically checks vendor warrant hold status for payments processed through the system. It is the Department's responsibility to check vendors that are not paid directly through USAS before issuing vendor payments.

Recommendation/Requirement

The Department must ensure its staff follows procedures to verify warrant hold status before completing payment card transactions. See [TexPayment Resource \(FPP P.007\) – Warrant Hold – Hold Inquiry Screens](#).



Department Response

The Department agrees with the finding. The Payment Card holder checked the vendor hold status after the purchase was made. All Payment Card holders are required to take online Payment Card training annually. It is the responsibility of the holder to ensure that all rules and policies are adhered to in order to properly make purchases with the Payment Card. AP and the Payment Card coordinator work together to ensure the holders have taken the training.

Grant Transactions

Auditors developed a sample of 10 grant transactions for \$12,672,293.04 to ensure the Department complied with the state laws and regulations pertaining to grants/loans and other pertinent statutes. Audit tests revealed no exceptions in these transactions.

Refund of Revenue Transactions

Auditors developed a sample of 10 refund transactions for \$2,772.46 to ensure the transactions were supported by appropriate documentation and complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed no exceptions in these transactions.

Travel Transactions

Auditors developed a sample of 99 travel transactions totaling \$37,696.47 to ensure the Department complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed the following exceptions for this group of transactions.

Gratuities Not Payable

Auditors identified two travel transactions that reimbursed employees for meal and lodging expenses including gratuities totaling \$6.67. The Department indicated it missed the errors during the review process.

The [Texas Constitution, Article III, Section 51](#) prohibits the expenditure of state money for private purposes. The payment of a gratuity is a violation of this section. Additionally, [Textravel – Prohibited reimbursements](#) states that gratuities paid in conjunction with meal expenses are generally not reimbursable.



Recommendation/Requirement

The Department must review all travel expense claims for legality and accuracy before payment. In addition, the Department must obtain a reimbursement from the employees unless it determines it is not cost effective to do so.

Department Response

The Department agrees with these findings These findings have been addressed in the Claims Unit bi-weekly meetings attended by the Unit Manager, Travel Branch Manager, and the Travel Team Lead. The Department has determined the employee is no longer with the agency and it is not cost effective to pursue the reimbursement process.

Incorrect Travel Reimbursement

Auditors identified two travel transactions that were overpaid. In one instance, the Department reimbursed the total amount of cash tendered instead of reimbursing the actual expense. In the second instance, a claim for rental car expenses was reimbursed more than the amount of the actual receipt. The Department indicated the errors were missed during the review process.

Agencies must examine all travel reimbursements before payment to ensure compliance with all applicable regulations and limitations. See [Textravel – Agency responsibilities](#).

Recommendation/Requirement

The Department must review all travel expense claims for legality and accuracy before payment. In addition, the Department must obtain a reimbursement from the employees unless it determines it is not cost effective to do so.

Department Response

The Department agrees with the findings. The Department has defined business processes that require accounting to verify all claims submitted for travel reimbursement. These incidents occurred at one of the state hospitals before they were transferred to HHSC. Hospital Chief Accountants were made aware of these findings during regularly scheduled monthly teleconferences between Central Office Accounting, Central Office Budget and the Hospital Chief Accountants. These findings have also been addressed in the Claims Unit bi-weekly meetings attended by the Unit Manager, Travel Branch Managers and the Travel Team Lead to proactively eliminate similar occurrences in Central Office Accounting. The Travel Manager meets weekly with her lead to discuss audit issues and training needs. The Travel Lead will ensure the Travel Team is properly trained and monitors the payment process through the review and approval of the travel payment vouchers.



Missing Travel Documentation

Auditors identified one travel transaction lacking documentation to support the expense. The Department processed a payment to reimburse rental car expenses without obtaining a receipt. The Department was unable to locate the documentation.

Without proper documentation, auditors could not determine whether the information entered into USAS was an accurate reflection of the intended purchases made. Agencies must maintain proper documentation to verify payments are valid and to ensure a proper audit trail.

See [34 Texas Administrative Code Section 5.22\(i\)\(2\)](#) for additional information.

Recommendation/Requirement

The Department must obtain proper documentation for travel expenses. The supporting documentation must be maintained in agency files at least until the end of the second appropriation year after the appropriation year in which the document is processed through USAS.

Department Response

The Department agrees with these findings. These incidents occurred at one of the state hospitals before they transferred to HHSC. Hospital Chief Accountants were made aware of these findings during regularly scheduled monthly teleconferences between Central Office Accounting, Central Office Budget and the Hospital Chief Accountants. These findings have also been addressed in the Claims Unit bi-weekly meetings attended by the Unit Manager, Travel Branch Managers and the Travel Team Lead to proactively eliminate similar occurrences in Central Office Accounting. The Travel Manager meets weekly with her lead to discuss audit issues and training needs. The Travel Lead will ensure the Travel Team is properly trained and monitors the payment process through the review and approval of the travel payment vouchers.

Missing Proof of Payment

Auditors noted one travel reimbursement for which the hotel receipt was not in the employee's name. The employee traveled with a second employee who used an online hotel booking service to book two hotel rooms. The service billed the second employee for both rooms, and the second employee paid for both rooms. The Department could not provide documentation showing that the employee in the sample reimbursed the second employee for the lodging expense. The first employee was reimbursed \$275.43 by the Department for the lodging expense.

The Department stated that the hotel could not issue a receipt in the first employee's name because the second employee paid for both rooms.



For a state employee to be reimbursed for a lodging expense, the employee must provide proof that the lodging expense was incurred. See [Textravel – Lodging Receipt Requirements](#). Without this proof, auditors could not verify that the employee incurred the charge.

Recommendation/Requirement

The employee must provide proof of payment to the other employee for the lodging expense or reimburse the Department for the amount of the lodging per [Texas Government Code, Section 660.017](#).

The Department must ensure that each employee is reimbursed for incurred lodging expenses. Employees may not pay for travel expenses incurred by other employees.

Department Response

The Department agrees with these findings. These findings have been addressed in the Claims Unit bi-weekly meetings attended by the Unit Manager, Travel Branch Manager and the Travel Team Group Lead. Travel staff is reminded of the documentation requirements and training issues are discussed and corrective measures taken. The Manager and Lead Accountant will ensure staff is trained properly and continue to monitor the payment process through the review and approval of the travel payment vouchers.

Security

The audit included a security review to identify Department 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 met so that security can be revoked in a timely manner. Audit tests revealed the following security exception.

Failure To Notify Comptroller's Office To Remove Employee from Signature Card

During the audit period, the Department did not notify the Comptroller's office about the termination of one employee who had been designated to approve its expenditures. The Department stated that the error was an oversight.

The employee remained on the Department's voucher signature cards for 630 days after termination. Although the Department is required to notify the Comptroller's office within five days after termination, the Department never notified the Comptroller's office. The former employee could have approved vouchers submitted to the Comptroller's office during that time. Any payment produced by a paper



voucher that was approved by the terminated employee would have constituted an unapproved expenditure. No paper vouchers were processed by this employee after the termination date.

Whenever a designated employee terminates employment with an agency, the Comptroller's office must receive notification of the termination no later than the fifth day after termination. Any officer or employee may send the Comptroller's office that notification. See [34 Texas Administration Code Section 5.61](#).

Recommendation/Requirement

The Department must ensure compliance with the terminated employee security revocation requirements. It must also ensure that the person responsible for sending the revocation notifications to the Comptroller's office is aware of employee terminations on or before the revocation dates and will follow up with the Comptroller's office to ensure receipt of the notification and that the revocation occurred.

Department Response

The Department agrees with the findings. The AP Management Team has been trained that it is their responsibility to contact the Comptroller's Office to ask that the employee be removed from the Signature Card within five days or fewer after an employee terminates or moves to another position that does not require the person to be on the Signature Card.

Internal Control Structure

The review of the Department's internal control structure was limited to obtaining reports identifying current users' access. The review did not include tests of existing mitigating controls. The audit tests conducted revealed the following exception in user access.

Control Weakness Over Expenditure Processing

As part of the planning process 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, the Standardized Payroll/Personnel Reporting System (SPRS), the Texas Identification Number System (TINS) and the voucher signature cards in effect on April 27, 2017. Auditors did not review or test any internal or compensating controls that the Department might have related to USAS, SPRS or TINS security or internal transaction approvals.

The Department had two employees with incompatible security capabilities. Both employees had the security access to pick up warrants from the Comptroller's office and were on the signature card, enabling them to approve paper vouchers for expedite.



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

The Department stated that the overlapping security was an oversight.

Recommendation/Requirement

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.

The Department must limit user access by removing the users from the agency's Authorization for Warrant (expedite) Pickup list or by removing the users from the agency's signature card.

Department Response

The Department agrees with the finding and the AP Manager has contacted the Comptroller's Office to have one of the individuals removed from the Signature Card and the Warrant Pickup list as that person has left the Department and no longer requires the authority. The other person will be removed from the Warrant Pickup list and remain on the Comptroller's Signature Card. The Management Team has met and been trained on the proper procedures to ensure that there are not any overlapping duties and that the segregation of duties exists.

Fixed Assets

Auditors developed a sample of 10 transactions of fixed assets acquired by the Department during the audit period to test for proper tracking in the Department's internal system. All assets tested were in their intended location and properly tagged.



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
 - The 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 Texas Department of State Health Services (Department) payroll, purchase, procurement and travel transactions that processed through USAS and SPRS from Dec. 1, 2015, through Nov. 30, 2016, to determine compliance with applicable state laws.

The Department received 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.

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.

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.



Audit Methodology

The Expenditure Audit section uses limited sampling to conduct a post-payment audit, and relies on professional judgment to select areas the auditor considers high risk.

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.

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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"> Lack of appropriate and sufficient evidentiary matter. Restrictions on information provided to auditor. Destruction of records. 	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.