



An Audit of the State Office of Administrative Hearings

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Table of Contents

Executive Summary

Purpose and Scope	1
Background	1
Audit Results	1
Key Recommendations	3

Detailed Findings

Payroll Transactions	4
Purchase/Procurement and Contract Transactions	4
Prompt Payment and Payment Scheduling Errors	4
Travel Transactions	5
Lack of Conservation of State Funds	5
Fixed Assets	6
Security	6
Internal Control Structure	6
Control Weakness Over Expenditure Processing	6
Targeted Analysis	7
Incorrect Billing Account Number	7

Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team	9
Appendix 2 — Definition of Ratings	11



Executive Summary

Purpose and Scope

The objectives of the State Office of Administrative Hearings (Office) 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, 2017, through Nov. 30, 2018.

Background

The State Office of Administrative Hearings resolves disputes between Texas agencies, other government entities and private citizens through administrative hearings or mediation. The Office is separate and independent from the agencies involved in the disputes.

State Office of Administrative
Hearings website



<http://www.soah.texas.gov>

Audit Results

The Office generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with payroll, procurement, refund of revenue, system security or property management records. However, the Office should consider making improvements to its travel, scheduling and prompt payment processes for purchase and contract transactions, as well as its internal control and charge card billing processes.

Auditors reissued two findings from the last audit conducted at the Office related to conservation of state funds for travel reimbursements and segregation of duties. Auditors originally issued these findings in June 2016. An overview of audit results is presented in the following table.

Table Summary

Area	Audit Question	Results	Rating
Payroll Transactions	Did payroll transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Purchase/Procurement and Contract Transactions	Did purchase/contract payments and procurements comply with the GAA, pertinent statutes and Comptroller requirements?	Prompt payment and payment scheduling errors	Compliant, Findings Issued
Travel Transactions	Did travel transactions comply with the GAA, pertinent statutes and Comptroller requirements?	 Lack of conservation of state funds	Compliant, Findings Issued
Refunds of Revenue	Did refund of revenue payments comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Fixed Assets	Were tested assets in their intended location and properly reported in the State Property Accounting system?	No issues	Fully Compliant
Security	Are Office employees who are no longer employed or whose security was revoked properly communicated to the Comptroller's office?	No issues	Fully Compliant
Internal Control Structure	Are incompatible duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	 One employee with overlapping security access for multiple duties	Compliant, Findings Issued
Targeted Analysis	Did the Office comply with payment card requirements?	Incorrect billing account number	Compliant, Findings Issued



Repeat Finding



Key Recommendations

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

- The Office 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 Office must enter proper due dates to ensure any interest due is paid correctly to vendors. The Office must schedule payments over \$5,000 to minimize the loss of earned interest to the state's treasury.
- The Office must exercise caution in its use of state funds and ensure its expenditures are fiscally responsible.
- The Office must implement additional controls over expenditure processing that segregate each accounting task to the greatest extent possible.
- The Office must ensure payments for third-party transactions are processed in accordance with [Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements \(FPP A.043\)](#) and [USAS and CAPPS Financials Invoice Number Field Requirements \(FPP E.023\)](#), and must continue to review payment card statements to ensure correct payment posting.



Detailed Findings

Payroll Transactions

Auditors developed a sample from a group of 30 employees and 141 payroll transactions totaling \$2,713,533.65 to ensure the Office complied with the GAA, [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Audit tests revealed no exceptions in this group of transactions.

Purchase/Procurement and Contract Transactions

Auditors developed a sample of 25 purchase transactions totaling \$494,032.54 to ensure the Office complied with the GAA, [eXpendit \(FPP I.005\)](#) and pertinent statutes.

In addition, auditors reviewed two contracts totaling \$275,919.21 and developed a sample of three contract payments totaling \$93,979.10 to ensure the Office complied with the GAA, [eXpendit \(FPP I.005\)](#), [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed the following exceptions in the purchase and contract transaction samples.

Prompt Payment and Payment Scheduling Errors

Auditors identified a total of nine transactions during the audit period that did not conform to the prompt payment and payment scheduling laws.

In the purchase sample, auditors discovered that the Office did not pay interest due for two transactions, and paid six transactions early, resulting in interest lost to the state's treasury. The contract sample also included one transaction where the interest was not paid.

According to the prompt payment law, [Texas Government Code, Section 2251.021\(a\)](#), a government entity's payment is overdue on the 31st day after either receipt of the goods or services, or the date the government entity receives an invoice for the goods or services, whichever is later.

The Comptroller's office computes and automatically pays 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](#).

[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 must require advance scheduling of payments when it benefits the state's treasury.



During the audit period, the Office paid vendors \$25.74 in prompt payment interest. According to the Office, these issues resulted from an employee needing additional training.

Recommendation/Requirement

The Office must review its procedures to ensure it both submits payment information for processing and releases payments in a timely manner to avoid interest liabilities. In addition, the Office must verify that proper due dates are entered to ensure that, if interest is due, it is paid correctly to vendors. See [eXpendit – Prompt Payment](#). Finally, the Office must schedule all payments over \$5,000 for the latest possible distribution and in accordance with its purchasing agreements as described in [eXpendit – Payment Scheduling](#) to minimize the loss of earned interest to the state's treasury.

Office Response

The agency agrees with this finding and has taken corrective actions to mitigate the issue. Accountants and payment approvers were re-trained on the Prompt Payment Act and the importance of scheduling payments correctly.

Travel Transactions

Auditors developed a sample of 20 travel transactions totaling \$2,065.84 to ensure the Office complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed the following exception in the travel transaction sample.

Lack of Conservation of State Funds

Auditors identified seven travel vouchers where the Office reimbursed travelers for mileage while operating personal vehicles to conduct official business, resulting in \$619.20 in overpayments of travel reimbursements, \$187.62 in the sample and \$431.58 outside the sample. Based on the car rental rates, taxes, cost of gas and standard mileage rates in effect at the time of travel, it would have cost the state less if the travelers had used rental vehicles instead of personal vehicles. Per the Office, administrative law judges often have hearings before or after travel days, making it impractical to obtain a rental car. The Office's travel procedures encourage employees to rent a car when it is the most cost-effective option, and cap the daily mileage reimbursements when the traveler chooses to take his or her personal vehicle.

[Texas Government Code, Section 660.007\(a\)](#) requires a state agency to minimize the amount of travel expenses paid or reimbursed by the agency. The agency must ensure that each travel arrangement is the most cost effective considering all relevant circumstances. Agencies must examine all travel reimbursements before payment to ensure compliance with applicable regulations and limitations. See [Textravel – General – Responsibilities](#).



Recommendation/Requirement

Although the Office has taken actions to cap the mileage reimbursements to travelers who use their personal vehicles for official business, the Office must further restrict the cap to be the lower of mileage reimbursement or car rental costs. The analysis can be completed and documented using the [Rental Vehicle vs. Mileage Reimbursement Calculator](#). In addition, the Office should require a cost analysis before management approves travel plans to ensure the most cost-efficient method of travel.

Office Response

The agency agrees with this finding and has taken corrective actions to mitigate the issue. The agency has updated its Travel Guide to require the Mileage vs. Rental Calculator.

Fixed Assets

The audit included a review of a limited number of fixed assets acquired by expenditures during the audit period to test for accurate reporting and to verify the existence of assets. All assets tested were in their intended location and properly recorded in the State Property Accounting (SPA) system. Audit tests revealed no exceptions in these transactions.

Security

The audit included a security review to identify Office employees with security in the Uniform Statewide Accounting System (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 security can be revoked in a timely manner. Audit tests revealed no exceptions in these transactions.

Internal Control Structure

Control Weakness Over Expenditure Processing

As part of the planning process for the post-payment audit, auditors reviewed certain limitations that the Office placed on its accounting staff's ability to process expenditures. Auditors reviewed the Office'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 Aug. 2, 2019. Auditors did not review or test any internal or compensating controls that the Office might have related to USAS, SPRS or TINS security or internal transaction approvals.



The Office had one employee with multiple security capabilities. The employee could:

- Enter/edit and release/approve payment vouchers in USAS and create/edit a vendor/direct deposit profile in TINS.
- Create/edit a vendor/direct deposit profile in TINS and, since the employee was listed on the voucher signature card, approve paper vouchers (expedites).
- Enter/edit payment vouchers in USAS and change the warrant hold status of a vendor in TINS.
- Approve paper vouchers and change the warrant hold status of a vendor in TINS.

The Office stated that it was unaware that the employee had multiple security capabilities. As a result of the audit, the Office submitted a security request to the Comptroller's office to correct the employee's security.

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

Recommendation/Requirement

To reduce risks to state funds, the Office should continue to review the controls over expenditure processing and segregate each accounting task to the maximum extent possible. Ideally, no individual should be able to process transactions without another person's involvement.

Office Response

The agency agrees with this finding and has taken corrective actions to mitigate the issue. A single user with a role to approve payments in USAS and a role to edit TINS was corrected by updating the user's role in TINS to read only. Although this single user had access to approve payments in USAS and edit TINS information, the Centralized Accounting and Payroll/Personnel System and internal procedures would prevent any segregation issues.

Targeted Analysis

Incorrect Billing Account Number

The audit included a review of various special reports run for the Office outside the sample. One of the reports lists transactions with an incorrect billing account number as prescribed by [Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements \(FPP A.043\)](#) and [USAS and CAPPs Financials Invoice Number Field Requirements \(FPP E.023\)](#).



During the review of this report, auditors identified 12 travel and procurement card documents totaling \$28,669.08 that were processed incorrectly to the state's payment card vendor. The Office failed to provide the correct billing account number as prescribed by [FPP A.043](#) and [FPP E.023](#). As a result, the vendor might not be able to post payments to the Office's payment and travel card accounts. The Office stated that the Citibank account information was not always entered correctly but was corrected in fiscal 2019.

Recommendation/Requirement

The Office must ensure payments for third-party transactions are processed in accordance with [FPP A.043](#) and [FPP E.023](#). To avoid account delinquency or reconciliation issues, auditors recommend the Office continue to review payment card statements to ensure payments are posted correctly.

Office Response

The agency agrees with this finding and has taken corrective actions to mitigate the issue. Upon discovering that accounting was issuing payment to Citibank, but not including the 10 digit billing number for reconciliation, it was corrected. However, all payments were correctly dispersed to Citibank. Staff were re-trained on the importance of entering the 10 digit billing number.



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 State Office of Administrative Hearings (Office) payroll, purchase, procurement and travel transactions that processed through USAS and SPRS from Dec. 1, 2017, through Nov. 30, 2018, to determine compliance with applicable state laws.

The Office 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.

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

Audit Team

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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.