



An Audit of the State Office of Risk Management

Audit Report # 479-19-08
March 23, 2020

Glenn Hegar
Texas Comptroller of Public Accounts





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Executive Summary

Purpose and Scope

The objectives of the State Office of Risk Management (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 June 1, 2017, through May 31, 2018.

Background

The Office administers insurance services obtained by state agencies. It is administratively attached to the Office of the Attorney General and governed by an appointed board of directors.

State Office of Risk Management
website

<https://www.sorm.state.tx.us>

Audit Results

The Office generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with payroll, travel, security or internal control processes. However, the Office should consider making improvements to its procurement process for purchases and contracts.

The auditors noted no recurring issues from the prior post-payment audit issued in April 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
<u>Purchase/Contracting and Procurement Process</u>	Did purchase/contract payments and procurement process comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> • Missing vendor compliance verifications. • Missing administrative review of responses. 	Compliant, Findings Issued
Travel Transactions	Did travel transactions 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?	No issues	Fully Compliant

Key Recommendations

To mitigate risk arising from control weaknesses, auditors recommend the Office perform applicable reviews, procurement activities and verifications as required by the [*State of Texas Procurement and Contract Management Guide*](#), and maintain appropriate documentation.



Detailed Findings

Payroll Transactions

Auditors developed a sample totaling \$207,094.92 from a group of 20 employees and 77 payroll transactions 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/Contracting and Procurement Process

Auditors developed a sample of 30 purchase/procurement transactions totaling \$1,071,410.40, as well as six transactions totaling \$148,495.42 from two vendor contracts 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/procurement and contract transactions.

Contract	Amount	Type of Service	Procurement Cycle				
			Planning	Procurement Method Determination	Vendor Selection	Contract Formation/Award	Contract Management
Contract A	\$187,625.00	Risk Management Information System Services	No exceptions	No exceptions	Missing vendor compliance check	No exceptions	No exceptions
Contract B	\$45,000.00	Actuarial Services	No exceptions	No exceptions	Missing administrative review of responses	No exceptions	No exceptions

Missing Vendor Compliance Verifications

For one contract and two purchase transactions, the Office was unable to provide a complete checklist of vendor compliance verification (VCV) documents. Without a complete VCV, the Office risks awarding a contract to a vendor who is not eligible to do business with the state. The Office must provide a screen print documenting each verification. According to the Office, it could not locate the required documents in the procurement file.



System of Award Management Check

Auditors identified one contract where the Office did not search the System for Award Management (SAM) database before entering into the contract. The agency must check the SAM database to verify that the vendor is not excluded from federal grant or contract participation. 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](#).

Iran, Sudan and Foreign Terrorist Organization List Check

Auditors identified two transactions where the Office could not provide documentation of the Iran, Sudan and foreign terrorist organization check in the purchase procurement file. Texas state agencies or political subdivisions can not contract with a company doing business with Iran, Sudan or a foreign terrorist organization. See [Texas Government Code, Sections 2252.001\(2\)](#) and [2252.152](#). An agency must check the divestment lists before awarding a contract to ensure the awardee is not in violation of this requirement, per [Texas Government Code, Sections 2252.153](#) and [2270.0201](#). The divestment lists are maintained by the Texas Safekeeping Trust Company and posted to the Comptroller's [Divestment Statute Lists](#) website.

Boycott Israel Check

Auditors identified two transactions missing documentation of the boycott Israel check in the purchase procurement file. Texas state agencies or political subdivisions can not contract with a company for goods or services unless the contract contains a written verification from the company that it does not boycott Israel and will not boycott Israel during the term of the contract. See [Texas Government Code, Chapter 808](#). Each agency must check the divestment lists before awarding a contract to ensure the awardee is not in violation of this requirement, per [Texas Government Code, Section 808.051](#). The divestment list is posted to the Comptroller's [Divestment Statute Lists](#) website. If the potential awardee is on the list, an agency can not award a contract to that vendor.

Recommendation/Requirement

The Office must conduct a VCV search before any purchase, contract award, extension or renewal. Results from the specified website must be retained and included in the procurement file. The Office has a quality assurance process with risk mitigation measures to help ensure the inclusion of required documentation.



Office Response

SORM is administratively attached to the Office of the Attorney General (OAG). Pursuant to an Interagency Contract, the OAG performs procurement functions on SORM's behalf and maintains the official procurement documentation in its ePro system. OAG protocols exist to ensure the VCV is performed. The OAG also has quality assurance checks to help ensure that evidence, when applicable, is located in the procurement file or is available to confirm the VCV was performed. SORM's contract management handbook, currently under full review, will include provisions outlining the cooperation between SORM and the OAG to ensure each contract file contains a checklist documenting compliance with state laws and rules relating to the acquisition of goods and services.

The OAG Procurement Division has taken additional steps to train and educate purchasers on the compliance checks required by the SPD. The Procurement Division has also added a quality assurance check on all contracts over \$5,000.00; these will be checked by a team lead prior to execution of a purchase order. The Procurement Division has also added the missed compliance checks to the procurement file checklist.

Missing Administrative Review of Contract Solicitation Responses

One of the two contract files did not contain evidence that the Office completed an administrative review of the responses. According to the Office, it was unable to locate the pre-screen form used to document that each vendor's proposal met the minimum qualifications.

After the Office opens and records responses, the contract developer must determine whether they are responsive to the solicitation. Only responsive submissions are evaluated. The administrative review is conducted on a "pass/fail" basis, and the contract developer should use a checklist to document the results of the review. See [State of Texas Procurement and Contract Management Guide](#) – Vendor Selection – Administrative Review of Responses.

The Office has a quality assurance process with risk mitigation measures to help ensure the inclusion of required documentation.

Recommendation/Requirement

The Office must follow procurement procedures to conduct an administrative review of the responses and maintain the review documentation in the contract file.

Office Response

SORM is administratively attached to the OAG, which performs procurement functions on SORM's behalf and maintains the official procurement documentation in its ePro system. The OAG's quality assurance process provides risk mitigation measures and helps ensure the existence of required file documentation. SORM is performing a full review



of its procurement policies and procedures. SORM's updated contract management handbook will include provisions outlining the cooperation between SORM and the OAG to ensure each contract file contains a checklist documenting compliance with state laws and rules relating to the acquisition of goods and services.

The administrative review is a requirement that is part of every competitive solicitation when it is received from a vendor. The OAG Procurement Division will add an additional quality review process to each competitive solicitation. Prior to any proposal being routed to the evaluation team, the team lead will review all administrative reviews to ensure completeness of each proposal.

Travel Transactions

Auditors developed a sample of 20 travel transactions totaling \$20,452.74 and four non-overnight travel transactions totaling \$46.95 to ensure the Office complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed no exceptions in these transactions.

Fixed Assets

The audit reviewed a limited number of fixed assets acquired by expenditures during the audit period to test for accurate reporting and to verify the assets' existence. 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 security exceptions.

Internal Control Structure

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 Uniform Statewide Payroll/Personnel System (USPS), the Texas Identification Number System (TINS) and voucher signature cards in effect on Jan. 11, 2019. Auditors did not review or test any internal or compensating controls that the Office may have relating to USAS, USPS or TINS security or internal transaction approvals. Audit tests revealed no exceptions.



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 Risk Management (Office) payroll, purchase, procurement 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 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

Mayra Castillo, CTCD, Lead Auditor

Shanda Hernandez, CTCD

Jesse Ayala



Appendix 2 — Definition of Ratings

Compliance Areas

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