



# An Audit of the Texas Department of Insurance

Audit Report # 454-19-10  
July 2, 2020

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# Executive Summary

## Purpose and Scope

The objectives of the Texas Department of Insurance (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, 2017, through Nov. 30, 2018.

## Background

The Department regulates the state's insurance industry, oversees the administration of the Texas workers' compensation system, performs the duties of the State Fire Marshal's Office and provides administrative support to the Office of Injured Employee Counsel, a separate agency. The insurance commissioner is the agency's chief executive and administrative officer. The commissioner administers and enforces state insurance laws and applicable laws that grant jurisdiction to the Department or the commissioner. The Department's mission is to protect insurance consumers by regulating the insurance industry fairly and diligently, promoting a stable and competitive market, and providing information.

Texas Department of Insurance  
website




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

## Audit Results

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

Auditors reissued three findings from the last audit conducted at the Department related to contracting and travel. Auditors originally issued these findings in March 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 the purchase/procurement and contract-related payments comply with the GAA, pertinent statutes and Comptroller requirements?	 Missing ESBD posting. <ul style="list-style-type: none"> <li>• Missing administrative review of responses.</li> </ul>  Missing bid tabulations. <ul style="list-style-type: none"> <li>• Missing required disclosure statements.</li> <li>• Missing SAO nepotism disclosure statement forms.</li> <li>• Missing/late vendor compliance verifications.</li> <li>• Missing TEC Certificate of Interested Parties (Form 1295).</li> <li>• Failure to report to the LBB</li> <li>• Missing VPTS check.</li> <li>• Contracts not posted in CAPPS.</li> </ul>	Compliant, Findings Issued
<u>Payment/Travel Card</u>	Did payment and travel card transactions comply with the GAA, 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?	 Lack of conservation of state funds. <ul style="list-style-type: none"> <li>• State travel card and contract not used for airfare.</li> </ul>	Compliant, Findings Issued
<u>Refund of Revenue Transactions</u>	Did refund of revenue transactions comply with the GAA, pertinent statutes and Comptroller requirements?	Overpayment of refund of revenue	Compliant, Findings Issued



Repeat Finding





Area	Audit Question	Results	Rating
Security	Are Department employees who are no longer employed or whose security was revoked properly communicated to the Comptroller's office?	No issues	Fully Compliant
<u>Internal Control Structure</u>	Are incompatible duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	Control weakness over expenditure processing	Control Weakness Issues Exist
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 enhance its internal controls to prevent incorrect salary payments.
- The Department must ensure that it retains all documents relating to procurement and contracts, such as documentation for:
  - Planning and contract management.
  - Conflict of interest and State Auditor's Office (SAO) disclosure statements.
  - Texas Ethics Commission's (TEC) Certificate of Interested Parties (Form 1295).
  - Reporting contract awards and purchases to the Legislative Budget Board (LBB).
  - Reporting purchases over \$25,000 to the Vendor Performance Tracking System (VPTS).
  - Vendor compliance verification before purchase, contract award or renewal.
  - Reporting contract information into the Centralized Accounting and Payroll/Personnel System (CAPPS).



- The Department must exercise caution in its use of state funds and ensure that its expenditures are fiscally responsible.
- The Department must ensure that it charges all future airfare to the state-issued travel credit card and uses the state contract.
- The Department must enhance its internal controls to prevent incorrect refunds of revenue.
- 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.



# Detailed Findings

## Payroll Transactions

Auditors developed a sample totaling \$405,495.75 from a group of 30 employees and 201 payroll transactions to ensure the Department complied with the GAA, [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Audit tests revealed the following exceptions in this group of transactions. Additionally, a limited sample of 23 voluntary contribution transactions was audited with no exceptions identified.

## Overpayment of Salary Amount

In a report generated outside of the sample, auditors identified one employee with an incorrect salary payment that resulted in an overpayment of salary to the employee totaling \$216.08.

The employee was overpaid due to leave without pay entries that were not entered into CAPPs when payroll was processed. The employee was terminated Jan. 29, 2018, two days before the end of the month. While the Department did send collection letters, the payee was not placed on payment hold until Aug. 20, 2019, when auditors noted the overpayment. The Department stated that this error occurred because the Human Resources Office did not notify the Accounting Office of the overpayment. The Department is updating its policy to require the Accounting Office to be included on requests for collection of overpayments. See [Texas Payroll/Personnel Resource – Overpayments](#) and [34 Texas Administrative Code Section 5.40\(c\)](#).

## Recommendation/Requirement

The Department must enhance its internal controls to prevent incorrect salary 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

*The Department took immediate action and updated the internal procedure for recoupment of overpayment. The procedure was revised to ensure that the Accounting Office is included on both the initial and the final notice to former employee. If money is not received after the final notice, Accounting will place the individual on warrant hold with the Comptroller of Public Accounts.*





## Purchase/Procurement and Contract Transactions

Auditors developed a sample of 25 purchase/procurement transactions totaling \$3,450,141.80, as well as five transactions totaling \$628,623.22 belonging to two vendor contracts valued at \$2,559,515.51 and \$5,887,293.02, to ensure that the Department complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed the following exceptions in 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	\$2,559,515.51	Digital Imaging Services	No exceptions	No exceptions	<ul style="list-style-type: none"><li>• Missing ESBD posting.</li><li>• Missing administrative review of responses.</li><li>• Missing bid tabulation.</li><li>• Missing required disclosure statements.</li><li>• Missing SAO nepotism disclosure statement forms.</li><li>• Missing vendor compliance verifications.</li><li>• Missing TEC Certificate of Interested Parties (Form 1295).</li><li>• Missing VPTS check.</li></ul>	No exceptions	Contract not submitted in CAPPs
Contract B	\$5,887,293.02	TexasSure	No exceptions	No exceptions	<ul style="list-style-type: none"><li>• Missing ESBD posting.</li><li>• Missing administrative review of responses.</li><li>• Missing bid tabulation.</li><li>• Missing SAO nepotism disclosure statement forms.</li><li>• Missing/late vendor compliance verifications.</li></ul>	Failure to report to the LBB	Contract not submitted in CAPPs



## Missing Electronic State Business Daily Posting

The procurement files did not contain proof of posting two purchase transactions over \$25,000 on the Electronic State Business Daily (ESBD). According to the Department, the former procurement management team did not consistently follow checklists to ensure documentation was completed and in the procurement file.

The Statewide Procurement Division (SPD) requires each agency to post notices on the ESBD for all solicitations expected to exceed \$25,000. State agencies must advertise a complete solicitation package for a minimum of 14 days, or 21 days if the solicitation package is too lengthy or complex to post in its entirety. See [State of Texas Procurement and Contract Management Guide](#), Solicitation – Advertisement Section.

Per [Texas Government Code, Section 2155.083](#) and [34 Texas Administrative Code Section 20.233](#), the requirement to post solicitations on the ESBD applies to all purchases over \$25,000, regardless of the source of funds used for procurement. This requirement includes delegated purchases, emergencies, construction projects, professional or consulting services, proprietary purchases and purchases exempt from SPD's purchasing authority.

## Recommendation/Requirement

The Department must post any contract over \$25,000 for the required duration and must maintain posting documentation in the contract file. Failure to post a qualifying purchase for the mandatory time could void the contract. See [Texas Government Code, Section 2155.083](#). Additionally, future payments under voided contracts are prohibited and failure to comply could subject the agency to a reduction in appropriation per [Texas Government Code, Section 403.071\(h\)\(4\)](#). Purchasing and Contract Administration at the Department has undergone significant changes in the last 18 months and has developed a procurement file checklist that will prevent future omissions.

## Department Response

*Purchasing and Contract Administration implemented a procurement file checklist that must be included in each procurement file, signed by the Contract Specialist, and reviewed by the Director before a contract is executed by the agency. The checklist ensures that all documentation is included in the file and that appropriate procurement steps were completed.*

## Missing Administrative Review of Responses

Neither contract contained evidence that the Department completed an administrative review of the responses. According to the Department, the former procurement management team did not consistently follow checklists to ensure documentation was completed and in the procurement file.



After the responses are opened and recorded, the contract developer must determine which submissions are responsive to the solicitation and will only evaluate those responses. The administrative review is "pass/fail." Auditors recommend that the contract developer use a checklist to document the results of the administrative review. See the [State of Texas Procurement and Contract Management Guide](#) – Vendor Selection – Administrative Review of Responses.

## Recommendation/Requirement

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The Department must follow procurement procedures and complete an administrative review of the responses. The Department should maintain the administrative review documentation as part of the contract file. Purchasing and Contract Administration at the Department has undergone significant changes in the last 18 months and has developed a procurement file checklist that will prevent future omissions.

## Department Response

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*Purchasing and Contract Administration implemented a procurement file checklist that must be included in each procurement file, signed by the Contract Specialist, and reviewed by the Director before a contract is executed by the agency. The checklist ensures that all documentation is included in the file and that appropriate procurement steps were completed.*

## Missing Bid Tabulations

Auditors identified two purchase transactions that were missing bid tabulations in the procurement files for the associated contracts. According to the Department, the former procurement management team did not consistently follow checklists to ensure documentation was completed and in the procurement file.

The bid or proposal solicitation is the first official evidence to the vendor community that an ordering entity intends to procure a good or service. The solicitation serves as the official instructions, explaining the ordering entity's requirements and how the vendor(s) will be selected. It is imperative that the agency include terms and conditions specific to the agency's solicitation, regardless of the type of solicitation document used. See [34 Texas Administrative Code Section 20.214](#) and the [State of Texas Procurement and Contract Management Guide](#) – Evaluation – Bid Tabulation Process.

Obtaining a bid from a single vendor increases the risk of the Department overpaying for services and might also result in a more qualified vendor not being used.





## Recommendation/Requirement

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The Department must obtain bids from qualified vendors for all services over \$5,000. It must tabulate all bids and retain documentation of the procurement process. Purchasing and Contract Administration at the Department has undergone significant changes in the last 18 months and has developed a procurement file checklist that will prevent future omissions.

## Department Response

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*Purchasing and Contract Administration implemented a procurement file checklist that must be included in each procurement file, signed by the Contract Specialist, and reviewed by the Director before a contract is executed by the agency. The checklist ensures that all documentation is included in the file and that appropriate procurement steps were completed.*

## Missing Required Disclosure Statements

The contract file for digital imaging services did not contain non-disclosure agreements or conflict of interest forms signed by the procurement and contract management personnel and the evaluation committee. According to the Department, the former procurement management team did not consistently follow checklists to ensure documentation was completed and in the procurement file.

Per [Texas Government Code, Section 2261.252\(a\)](#), each state agency employee or official involved in procurement or contract management must disclose any potential conflict of interest for any contract or bid. Additionally, [Texas Government Code, Section 2261.252\(a-1\)](#) requires disclosure of any potential conflict of interest that is known by the employee or official at any time from the initial request for bids until the completed final delivery of the goods or services or the end of the term of a contract with a private vendor.

Individuals serving on an evaluation committee or as technical advisors must sign a non-disclosure agreement before receiving the responses or participating in evaluation committee activities to safeguard the integrity of the evaluation process. An agency must also conduct a due diligence inquiry into the evaluation committee members' and technical advisors' actual and potential conflicts of interest. See [State of Texas Procurement and Contract Management Guide](#) – Non-Disclosure Agreements and Conflict of Interest Disclosures.

The non-disclosure and conflict of interest certification should be signed on a regular basis. The signing date may vary according to each agency's policy (e.g., every fiscal year, calendar year or employment date anniversary). See [State of Texas Procurement and Contract Management Guide](#) – Appendix 3 – Required Disclosures.



## Recommendation/Requirement

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The Department must follow procurement procedures to ensure that procurement and contract management personnel, evaluation committee members and technical advisors complete and sign non-disclosure agreements and conflict of interest disclosures before engaging in procurement or evaluation activities. Purchasing and Contract Administration at the Department has undergone significant changes in the last 18 months and has developed a procurement file checklist that will prevent future omissions.

## Department Response

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*Purchasing and Contract Administration implemented a procurement file checklist that must be included in each procurement file, signed by the Contract Specialist, and reviewed by the Director before a contract is executed by the agency. The checklist ensures that all documentation is included in the file and that appropriate procurement steps were completed.*

## Missing SAO Nepotism Disclosure Forms

The Department failed to have each employee involved in procurement for the two contracts complete and sign SAO nepotism disclosure forms. According to the Department, the former procurement management team did not consistently follow checklists to ensure documentation was completed and in the procurement file.

For contracts of at least \$1 million, all purchasing personnel working on the contract must disclose any relationship with the selected vendor (or any employee, stockholder, contractor, etc.) to the administrative head of the agency. See [State of Texas Procurement and Contract Management Guide](#) – SAO Nepotism Disclosure Statement for Purchasing Personnel.

## Recommendation/Requirement

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The Department must ensure that all procurement personnel involved in awarding contracts of at least \$1 million sign the SAO disclosure statement for purchasing personnel located on the [SAO website](#), and must retain the signed statements in the contract file. Purchasing and Contract Administration at the Department has undergone significant changes in the last 18 months and has developed a procurement file checklist that will prevent future omissions.

## Department Response

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*Purchasing and Contract Administration implemented a procurement file checklist that must be included in each procurement file, signed by the Contract Specialist, and reviewed by the Director before a contract is executed by the agency. The checklist ensures that all documentation is included in the file and that appropriate procurement steps were completed.*



## Missing/Late Vendor Compliance Verifications

The Department was unable to provide a complete checklist of vendor compliance verification (VCV) documents for either contract and three purchase transactions. The Department must provide a dated screen print documenting each verification. According to the Department, the former procurement management team did not consistently follow checklists to ensure documentation was completed and in the procurement file.

## Debarment Check

The Department did not search the debarred vendor list before entering into either contract and three purchase transactions. The contract developer (purchaser) must check the [Debarred Vendor List](#) posted on the Comptroller's website to confirm 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, breach of contract with the state, 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 (SAM) Check

The Department did not search the SAM database before entering into either contract and one purchase transaction. The agency must check the database to verify that 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). See [Presidential Executive Order 13224](#).

## Warrant Hold Check

The Department did not verify the vendor's warrant hold status before the date of contract execution for either contract and one purchase transaction. State agencies must check the warrant hold status of a vendor if the transaction involves a written contract, per [Texas Government Code, Section 2252.903\(a\)](#). The status check must occur no earlier than the seventh day before and no later than the date of entering into the contract.

## Iran, Sudan and Foreign Terrorist Organization List Check

The Department could not document performance of the Iran, Sudan and foreign terrorist organization check for one purchase transaction. Government entities cannot 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 potential awardee is not in violation of this requirement, per [Texas Government Code, Sections 2252.153](#) and [2270.0201](#). The Texas Safekeeping Trust Company maintains the divestment lists and posts them to the Comptroller's [Divestment Statute Lists](#).

### Boycott Israel Check

The Department could not provide documentation that it checked the boycott Israel list for one purchase transaction. Government entities cannot 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](#). Before awarding a contract, an agency must check the divestment lists to ensure the potential awardee is not in violation of this requirement, per [Texas Government Code, Section 808.051](#). The divestment list is on the Comptroller's [Divestment Statute Lists](#). No potential awardee on the list can receive a contract.

### Franchise Tax Check

The Department could not provide documentation that it conducted a franchise tax check before awarding one contract. The Department should search the Comptroller's [franchise tax list](#) to see if a potential vendor has filed a franchise tax report or paid the franchise tax required under the [Texas Tax Code, Section 171.251](#). The Texas franchise tax is a privilege tax imposed on each taxable entity formed, organized or doing business in Texas. The Comptroller is required by law to forfeit a company's right to conduct business in Texas if the company has not filed a franchise tax report or paid a required franchise tax. The entity will be denied the right to sue or defend itself in a Texas court and each director or officer will be liable for the debt of the entity under [Texas Tax Code, Section 171.255](#) if the corporate privileges are forfeited. The Department should seek assistance from its counsel before proceeding with an award to a vendor that does not have the right to conduct business in Texas.

### Recommendation/Requirement

The Department must conduct a VCV search before any purchase, contract award, extension or renewal, and retain the results from each specified website in the procurement file. Purchasing and Contract Administration at the Department has undergone significant changes in the last 18 months and has developed a procurement file checklist that will prevent future omissions.



## Department Response

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*Purchasing and Contract Administration implemented a procurement file checklist that must be included in each procurement file, signed by the Contract Specialist, and reviewed by the Director before a contract is executed by the agency. The checklist ensures that all documentation is included in the file and that appropriate procurement steps were completed.*

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

One contract was missing the required Texas Ethics Commission (TEC) Certificate of Interested Parties (Form 1295). According to the Department, the former procurement management team did not consistently follow checklists to ensure documentation was completed and in the procurement file.

Certain contracts with values of \$1 million or more require completion of TEC Form 1295. Before contract award, the vendor must submit 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 note the Form 1295 requirement 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 each vendor involved in contracts of at least \$1 million completes Form 1295 located on the [TEC website](#). Purchasing and Contract Administration at the Department has undergone significant changes in the last 18 months and has developed a procurement file checklist that will prevent future omissions.

## Department Response

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*Purchasing and Contract Administration implemented a procurement file checklist that must be included in each procurement file, signed by the Contract Specialist, and reviewed by the Director before a contract is executed by the agency. The checklist ensures that all documentation is included in the file and that appropriate procurement steps were completed.*

## Failure To Report to the Legislative Budget Board

The Department failed to report one contract to the LBB. According to the Department, the former procurement management team did not consistently follow checklists to ensure documentation was completed and in the procurement file.



The [GAA, Reporting Requirements, Article IX, Section 7.04](#) requires state agencies receiving appropriations under the GAA to report all contracts over \$50,000 to the LBB, including contracts for which only non-appropriated funds will be expended. The submission must include documentation such as the award, solicitation documents, renewal, amendments, addendums, extensions, attestation letters and other records. Contracts initially reported to the LBB database do not have to be reposted on the web under [Texas Government Code, Section 2261.253\(g\)\(1\)](#).

## Recommendation/Requirement

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The Department must report awarded contracts to the LBB for full compliance with the [GAA, Article IX, Section 7.04\(c\)](#) and the [LBB Contract Reporting Guide](#). Purchasing and Contract Administration at the Department has undergone significant changes in the last 18 months and has developed a procurement file checklist that will prevent future omissions.

## Department Response

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*Purchasing and Contract Administration implemented a procurement file checklist that must be included in each procurement file, signed by the Contract Specialist, and reviewed by the Director before a contract is executed by the agency. The checklist ensures that all documentation is included in the file and that appropriate procurement steps were completed.*

## Missing Vendor Performance Tracking System (VPTS) Check

The Department failed to check the SPD's VPTS for one contract. Per the Department, the former procurement management team did not consistently follow checklists to ensure documentation was completed and in the procurement file.

Reviewing the vendor performance report before awarding a contract allows the Department to identify vendors with exceptional performance that have met all their contract obligations, and it protects the state from vendors with unethical business practices. The Department must include information from the online VPTS to evaluate vendors before awarding a contract. See [Texas Government Code 2262.055\(d\)](#) and [34 Texas Administrative Code Section 20.217\(a\)](#). The Department must consider all the information collected and evaluated before awarding a contract.

## Recommendation/Requirement

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The Department must check the VPTS to determine whether to award a contract to a vendor before awarding a contract and must report ongoing and completed contracts and purchases to VPTS to identify vendors demonstrating exceptional performance. Purchasing and Contract Administration at the Department has undergone significant changes in the last 18 months and has developed a procurement file checklist that will prevent future omissions.





## Department Response

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*Purchasing and Contract Administration implemented a procurement file checklist that must be included in each procurement file, signed by the Contract Specialist, and reviewed by the Director before a contract is executed by the agency. The checklist ensures that all documentation is included in the file and that appropriate procurement steps were completed.*

## Contracts Not Posted in Centralized Accounting and Payroll/Personnel System (CAPPS)

Auditors noted neither contract was posted in CAPPS. According to the Department, the former procurement management team did not consistently follow checklists to ensure documentation was completed and in the procurement file.

Agencies using CAPPS must post solicitation and contract information according to Comptroller requirements. See [Texas Government Code, Section 2101.041\(a\)](#).

## Recommendation/Requirement

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The Department must post contract information to CAPPS to fulfill the Legislature's enterprise resource planning requirements. See [State of Texas Procurement and Contract Management Guide](#) – Agency Reporting of Contracting Information in CAPPS.

## Department Response

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*Purchasing and Contract Administration implemented a procurement file checklist that must be included in each procurement file, signed by the Contract Specialist, and reviewed by the Director before a contract is executed by the agency. The checklist ensures that all documentation is included in the file and that appropriate procurement steps were completed.*

## Payment/Travel Card Transactions

Auditors developed a sample of 25 payment card transactions totaling \$40,525.84 and 13 travel card transactions totaling \$210.14 to ensure the Department 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 25 travel transactions totaling \$25,562.77 to ensure the Department complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed the following exceptions in this group of transactions.



## Lack of Conservation of State Funds

Auditors identified two travel transactions in the sample where the Department did not conserve state funds. The Department reimbursed two employees for incorrect mileage for a personal vehicle rather than for a rental car. Both employees did provide a cost comparison, but they used the rate for an SUV (\$56 a day) and a minivan (\$52 a day) rather than the rate for a standard or intermediate size car (\$37-\$39 a day). Both employees were traveling alone. This resulted in overpayments totaling \$613.25. According to the Department, it agrees with this finding; there is no justification for the larger vehicle comparison when an employee is traveling alone. A state employee is entitled to reimbursement 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](#).

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.

## 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 that the mileage claimed does not exceed the number of miles of the most cost-effective route between two points.

## Department Response

*The Department took immediate action and created additional procedures on how to complete the least cost worksheet. The Department also provided additional guidance to accountants for use in their review of travel expenditures.*

*The revised least cost worksheet instructions include an emphasis on what the allowable rates are and require the traveler to submit a justification if the allowable rate is exceeded.*

## State Travel Card and Contract Not Used for Airfare

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 El Paso, Texas. The employee used her personal credit card and requested reimbursement. Per the Department, at that point, it notified the employee that a state travel card must be used for state airfare. Agencies must use contract travel services through the State Travel Management Program 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](#).

## Recommendation/Requirement

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The Department must charge all future airfare to the state-issued travel credit card and must use the state contract unless an exception is noted.

## Department Response

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*The Department took immediate action to develop more training tools and guidance for the agency travelers.*

*Travel training booklets were created and the agency travel presentation was recently updated to emphasize the need to charge airfare to the state-issued travel credit card.*

## Refund of Revenue Transactions

Auditors developed a sample of 10 refund of revenue transactions totaling \$122,038.68 to ensure the Department complied with the GAA, [Refunding Deposits \(APS 013\) \(FPP A.033\)](#) and pertinent statutes. Audit tests revealed the following exception in this group of transactions.

## Overpayment of Refund of Revenue

The Department overpaid the vendor \$7,282.17 for one refund of revenue transaction. The overpayment was due to the accounting staff incorrectly using the appropriation reconciliation of deferred revenue for the calculation of unspent revenue. The Department stated that this overpayment occurred because the reconciliation included the total general ledger accounts deferred revenue, which includes more than the funds received from this vendor. The accountants incorrectly identified the total collected for another vendor as the amount to refund. The Department is updating its policies and procedures for these types of transactions. The Department contacted the vendor, requested repayment and received reimbursement. See [eXpendit – Miscellaneous Expenditures – Payments and Fees – Refunds](#) and [Refunding Deposits \(APS 013\) \(FPP A.033\)](#).

## Recommendation/Requirement

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The Department must enhance its internal controls to prevent incorrect refunds of revenue.





## Department Response

*The refund of the overpayment for the identified program was requested immediately and received on September 3, 2019. New procedures were created for this program which include a monthly reconciliation of the expenses and revenue along with an annual reconciliation at the end of the program year before any refund is made.*

*The annual reconciliation is approved by the accounting director then forwarded to the budget director for secondary approval. Once approved, a full accounting of the program's annual expenditures is to be provided along with any refund due.*

## 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 locations 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 Department 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 that security can be revoked in a timely manner. Audit tests revealed no exceptions in these transactions.

## 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 revealed the following exception in user access.

## Control Weakness Over Expenditure Processing

Auditors reviewed the Department's signature cards and security for USAS, the Standardized Payroll/Personnel Reporting System (SPRS) and the Texas Identification Number System (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, SPRS or TINS.

During the audit period, auditors identified employees with security conflicts. Two employees were on the agency's signature card (could approve a paper voucher for expedite) and were on the agency's Authorization for Warrant Pickup list.



## Recommendation/Requirement

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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 that the Department limit user access by removing the user from the Department's signature card or by removing the user from the Authorization for Warrant Pickup list.

## Department Response

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*The Department took immediate action and removed the identified users from the warrant authorization pick-up list.*



# Appendices

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

### Audit Objectives

The objectives of this audit were to:

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

### Audit Scope

Auditors reviewed a sample of the Texas Department of Insurance (Department) payroll, purchase, contracts/procurement, payment card, refund of revenue and travel transactions that processed through USAS and SPRS from Dec. 1, 2017, through Nov. 30, 2018, to determine compliance with applicable state laws.

*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 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 section 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, 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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*Shanda Hernandez, CTCD*

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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"><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.