



An Audit of the Texas General Land Office

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Glenn Hegar
Texas Comptroller of Public Accounts



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Executive Summary

Purpose and Scope

The objectives of the Texas General Land Office (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 Texas General Land Office is the state agency responsible for managing land and mineral right properties that are owned by the state. The Office manages Texas' publicly owned lands by negotiating and enforcing leases for the use of the land, and sometimes by selling public lands. The Office also manages and contributes to the state's Permanent School Fund. Royalties and proceeds from land sales are added to the state's Permanent School Fund, which helps to fund public education in the state.



Texas General Land Office website
www.glo.texas.gov

Audit Results

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

Auditors reissued two findings related to payroll from the last audit conducted at the Office. Auditors originally issued these findings in January 2016. An overview of audit results is presented in the following table.

Table Summary

Area	Audit Question	Results	Rating
<u>Payroll Transactions/Leave Accounting Reconciliation</u>	Did payroll transactions comply with the GAA, pertinent statutes and Comptroller requirements?	 Incorrect state effective service date.  Incorrect longevity payment. <ul style="list-style-type: none"> • Compensatory time not accrued. 	Compliant, Findings Issued
Non-Overnight Travel Transactions	Did non-overnight transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Purchase/Procurement and Contract Transactions</u>	Did the purchase/procurement and contract-related payments comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> • Missing State Auditor's Office (SAO) nepotism disclosure forms. • Missing vendor compliance verifications. • Missing Texas Ethics Commission Certificate of Interested Parties (Form 1295). 	Compliant, Findings Issued
Travel Transactions	Did travel transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Grant Transactions	Did grant transactions comply with the GAA and the state laws and regulations pertaining to grants?	No issues	Fully Compliant
Refund of Revenue Transactions	Did refund of revenue transactions comply with the GAA, pertinent statutes and Comptroller requirements?	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



Repeat Finding



Area	Audit Question	Results	Rating
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
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 Office should ensure that it detects and prevents incorrect compensation to an employee. Additionally, the Office should use the state's employment history application to ensure employees receive state service credit for eligible periods of state employment.
- The Office must comply with [Texas Government Code, Sections 662.007](#) and [662.005](#) and provide accurate compensatory time for all Fair Labor Standards Act (FLSA) exempt employees, and must award compensatory time to all exempt employees who work on holidays.
- The Office must ensure that it keeps all documents relating to procurement and contracts on file, such as:
 - SAO nepotism forms.
 - Compliance checks.
 - Texas Ethics Commission's Certificate of Interested Parties (Form 1295).



Detailed Findings

Payroll Transactions

Auditors developed a sample from a group of 30 employees and 135 payroll transactions totaling \$997,985.83 to ensure the Office complied with the GAA, [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Also, a limited sample of 20 voluntary contribution transactions was audited with no exceptions identified.

Auditors reviewed an additional four employee files identified in an earlier state service payroll report outside of the sample. Audit tests revealed three issues of noncompliance.

In addition to auditing payroll transactions, the auditors conducted a leave accounting reconciliation between the Office's internal leave accounting system, Timekeeper, and the Uniform Statewide Payroll/Personnel System (USPS) leave accounting system, selecting 11 employees from the sample for the leave accounting reconciliation.

Audit tests revealed the following exceptions in the payroll and leave accounting transactions.

Incorrect State Effective Service Date/Incorrect Longevity Payment

In a report generated outside of the payroll sample, auditors identified three employees with incorrect state effective service dates. This report identifies employees with prior state service that have not been verified by the agency or that the employee did not disclose during the new hire process. The Office did not enter one employee's prior service at the time of hire, though it was noted on the job application. This resulted in a \$300 underpayment of longevity pay. The other two employees had less than two years of state employment, so the additional state service credit did not have a monetary impact.

[34 Texas Administrative Code Section 5.40\(c\)\(2\)](#)

Quality control measures. Each state agency must ensure that its internal operating procedures include quality control measures that will detect any underpayment of compensation to a state employee.

The Comptrollers' office introduced the [State of Texas Employment History application](#), a secure web-based application that helps state human resource staff research state employment history, in April 2018. Since two employees were hired after the application's launch, the Office could have used it to determine if prior state employment existed. The other employee was hired before the application launched.



The Office's procedures include verifying prior state service an employee lists in the application. Two of the employees did list prior state employment in the application; the third one did not. As a result of the audit, the Office verified the additional prior state service and made the required entries in USPS.

When an agency hires an employee, it 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](#).

The previous audit identified one issue relating to longevity pay. The current audit identified three issues relating to longevity pay. This increase in findings illustrates the importance of verifying prior state service in a timely manner.

Recommendation/Requirement

The Office should review its controls and personnel records to ensure accuracy and completeness, as well as guarantee that its procedures include quality control measures that will detect and prevent incorrect compensation to an employee.

The Office could use the [State Employment History Application](#) to ensure employees receive state service credit for eligible periods of state employment. State agencies must correct compensation underpayment promptly through a supplemental payroll. See [34 Texas Administrative Code Section 5.40\(c\)](#). The Office has compensated the employee for the underpaid amount.

Office Response

The GLO agrees with the recommendation. The agency had not fully implemented its procedures for checking the State of Texas History Database for prior state service. The agency has modified its process and procedures to ensure the Comptroller's State Employment History Application is reviewed during the employee on-boarding process. This step is in addition to the steps already being taken during the agency's on-boarding process.

Compensatory Time Not Accrued

The Office uses Timekeeper, an internal leave accounting system. Auditors reviewed Timekeeper leave accounting policies and procedures to understand the system. Currently, Office employees enter hours worked and/or leave taken per day into Timekeeper, then a supervisor reviews, approves or disapproves the entries. After final approval, the Timekeeper leave accounting data is exported to the USPS leave accounting system to track leave balances and administer leave, according to statute.



To ensure the accuracy of leave accounting entries in-house and leave records exported to USPS leave accounting, as well as a smooth transition to the CAPPs Human Resources/ Payroll Module, which the Office is currently implementing, auditors conducted a reconciliation between Timekeeper and the USPS leave accounting system.

Auditors selected 11 employees from the payroll sample; five of those 11 were FLSA exempt employees who did not receive holiday compensatory time for hours worked on Presidents Day, Memorial Day or the day after Christmas.

Per the Office's leave accounting policy, FLSA exempt employees are expected to work the hours necessary to accomplish the agency's mission, and do not normally accrue state compensatory time for working more than 40 hours in a work week.

The Office confirmed that FLSA exempt employees in higher salary groups did not normally accrue compensatory time for working more than 40 hours a week. However, with prior approval, FLSA exempt employees in lower salary groups could accrue compensatory time for working more than 40 hours a week.

[Texas Government Code, Section 662.007](#) states that an employee who is required to work on a national or state holiday is entitled to compensatory time off during the 12 months after the holiday, as long as the employee is entitled to a paid day off for working on the holiday under [Section 662.005](#).

The Comptroller's office is aware that the FLSA does not require that an FLSA exempt employee accrue compensatory time for working more than 40 hours a week. However, the auditors believe that the Office's compensatory time policy for FLSA exempt employees is inconsistent, and therefore could be considered disparate treatment.

Recommendation/Requirement

The Office should review all Timekeeper leave accounting entries to ensure the accuracy of records entered in Timekeeper and exported to USPS. Additionally, the Office should revise its leave accounting policies for FLSA exempt employees to ensure consistency with [Texas Government Code, Section 662.007](#) and [Section 662.005](#) and to ensure proportionate compensatory time policies for all FLSA exempt employees.

Also, the Office must award compensatory time to all exempt employees who did not receive it for working on holidays.

Office Response

The GLO agrees with the recommendation. To prevent the situation from occurring on future federal and state holidays, the agency will periodically review the weeks in which holidays take place to confirm exempt employees accurately record their time. The GLO will clarify its policies and procedures to ensure employees and managers know the appropriate procedures for requesting approval in advance to work on a holiday



and that the policies cover proportionate treatment for all FLSA employees to avoid disparate treatment of its employees, unless the agency's business operations require us to respond to emergencies that are part of our mission. Also, with the implementation of the HCM module of CAPPs, the agency will implement new business processes to mitigate future occurrences and begin to allow FLSA exempt employees to earn hour for hour comp time.

Non-Overnight Travel Transactions

Auditors developed a sample from a group of three employees and three non-overnight payroll transactions totaling \$175.27 to ensure the Office complied with the GAA, [Texas Payroll/Personnel Resource \(FPP F.027\)](#), [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed no exceptions in these transactions.

Purchase/Procurement and Contract Transactions

Auditors developed a sample of 41 purchase/procurement transactions totaling \$47,851,312.68, as well as five transactions totaling \$6,990,004.79 belonging to two vendor contracts valued at \$2,269,469 and \$153,424.41, to ensure the Office 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	\$2,269,469	Marketing and Media Advertising	No exceptions	No exceptions	<ul style="list-style-type: none">• Missing State Auditor's Office (SAO) nepotism disclosure forms.• Missing vendor compliance verifications.• Missing Texas Ethics Commission Disclosure of Interested Parties Certificate (Form 1295).	No exceptions	No exceptions
Contract B	\$153,424.41	Cabinet and Fixture Replacement	No exceptions	No exceptions	Missing vendor compliance verifications	No exceptions	No exceptions



Missing State Auditor's Office (SAO) Nepotism Disclosure Forms

The Office failed to complete and sign SAO nepotism disclosure forms for each employee involved in procurement for one contract. According to the Office, it lacked adequate controls at the time of contract award to ensure employees completed the forms before contract execution.

For contracts valued at \$1 million or more, 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 on a form prescribed by the SAO. See [State of Texas Procurement and Contract Management Guide](#) – SAO Nepotism Statement for Purchasing Personnel.

Recommendation/Requirement

The Office must ensure 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. Currently, the Office's contract management system has a built-in workflow that will not allow a contract valued at \$1 million or more to route for signature until the nepotism form is complete.

Office Response

The GLO agrees with this recommendation. Adequate controls were not in place at the time of contract award to ensure that the nepotism form was executed prior to execution of the contract. Currently, the GLO's contract management system (CLM) has the capability to implement a built-in workflow that will not allow a \$1 million+ contract to route for signature until the nepotism form is complete. We plan to implement this workflow by June 15, 2020.

Missing Vendor Compliance Verifications

For both contracts and two purchase transactions, the Office was unable to provide a screen print of the vendor compliance verification (VCV) documents. The agency must provide a screen print showing that it performed each verification. According to the Office, it lacked adequate controls at the time of contract awards to ensure it verified compliance before contract execution.

System for Award Management Check

Auditors noted one purchase transaction 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 the vendor is not excluded from 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 noted in the Order). See [Presidential Executive Order 13224](#).

Warrant Hold Check

Auditors noted one contract where the Office did not verify the vendor's warrant hold status before contract execution. State agencies must check a vendor's warrant hold status if the transaction involves a written contract. [Texas Government Code, Section 2252.903\(a\)](#) requires each agency to determine whether a payment law prohibits the Comptroller from issuing a warrant or initiating an electronic funds transfer to a person before entering into a written contract with that person, and to make that determination no earlier than the seventh day before and no later than the date of the contract.

Iran, Sudan and Foreign Terrorist Organization List Check

The Office could not provide documentation that it performed the Iran, Sudan and foreign terrorist check for one contract transaction, or that it performed the Iran and Sudan check for one purchase transaction. Agencies may not contract with a company doing business with Iran, Sudan or a foreign terrorist organization. See [Texas Government Code, Sections 2252.001\(2\), 2252.151\(4\) and 2252.152](#). Each agency must check the divestment lists before award to determine if the potential awardee is 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 website](#). Agencies cannot award a contract to a vendor that is in violation.

Boycott Israel Check

The Office could not provide documentation that it performed the boycott Israel check for one contract transaction. Agencies may 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](#). Before contract award, agencies must check the divestment lists on the Comptroller's [Divestment Statute Lists website](#) to determine if the potential awardee is in violation of this requirement, as required by [Texas Government Code, Section 808.051](#). If the potential awardee is on the list, an agency cannot award the contract to that vendor.



Recommendation/Requirement

The Office must conduct all VCV checks before any purchase, contract award, extension or renewal, and must retain results from the specified website in the procurement file as evidence. Currently, the procurement director or the designee reviews all procurement files and purchase orders over \$5K to ensure the purchaser performs all vendor checks.

Office Response

The GLO agrees with this recommendation. Adequate controls were not in place at the time of contract award to ensure that all vendor compliance was performed within the required time frame. Currently, the Procurement Director or her designee reviews all procurement files and purchase orders over \$5K to ensure that all vendor checks were performed by the purchaser. The Procurement Director has also instructed all purchasing staff to ensure that timely vendor compliance verifications are included with all purchase orders and procurement card purchases regardless of dollar amount. The credit card administrator verifies the vendor checks are included with procurement card documentation. \$5K and under purchase orders include a simplified procurement checklist that includes purchaser verification that the vendor checks were performed.

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

One contract lacked the required TEC Certificate of Interested Parties (Form 1295). According to the Office, adequate controls were not in place at the time of the contract award to ensure staff completed Form 1295 before contract execution.

Certain contracts with a value of \$1 million or more require completion of TEC Form 1295. See [State of Texas Procurement and Contract Management Guide](#) – TEC Disclosure of Interested Parties (Form 1295). Before contract award, the vendor must submit a completed, signed form to the agency with the certificate of filing number and date. The contract developer then acknowledges the form on the TEC website. It is best practice to mention Form 1295 in the solicitation to allow the vendor to gather the required information early in the process.

Recommendation/Requirement

The Office must ensure each vendor involved in contracts of at least \$1 million completes Form 1295, located on the [TEC website](#). Currently, the Office's contract management system has a built-in workflow that will not allow a contract valued at \$1 million or more to route for signature until Form 1295 is complete.



Office Response

The GLO agrees with this recommendation. Adequate controls were not in place at the time of contract award to ensure that Form 1295 was executed prior to execution of the contract. Currently, the GLO's contract management system (CLM) has a built-in workflow that will not allow a \$1 million+ contract to route for signature until Form 1295 is complete.

Travel Transactions

Auditors developed a sample of 20 travel transactions totaling \$18,036.46 to ensure the Office complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed no exceptions in these transactions.

Grant Transactions

Auditors developed a sample of five travel transactions totaling \$1,261,131.43 to ensure the Office complied with the GAA and state laws and regulations pertaining to grants and other related statutes. Audit tests revealed no exceptions in these transactions.

Refund of Revenue Transactions

Auditors developed a sample of five refund of revenue transactions totaling \$4,231,768.90 to ensure the Office complied with the GAA, [Refunding Deposits \(APS 013\) \(FPP A.033\)](#) and pertinent statutes. Audit tests revealed no exceptions in these transactions.

Security

The audit included a security review to identify Office employees with security in Uniform Statewide Accounting System (USAS) or on the voucher signature cards who were no longer employed or whose security had been revoked. On 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 Office's internal control structure was limited to obtaining reports identifying current users' access. The review did not include tests of existing mitigating controls. Audit tests revealed no exceptions in these transactions.



Fixed Assets

Auditors reviewed 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.



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 Texas General Land Office (Office) payroll, non-overnight, purchase, contracts/procurement, travel, grant, and refund of revenue transactions that processed through USAS and USPS 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.

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. The Office must compensate the employees who were underpaid longevity pay.

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.



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

Anna Calzada, CTCD, Lead Auditor

Mayra Castillo, 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.