



An Audit of the Railroad Commission of Texas

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Executive Summary

Purpose and Scope

The objectives of the Railroad Commission of Texas (Commission) 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 Commission has regulatory jurisdiction over the oil and natural gas industry, pipeline transporters, natural gas and hazardous liquid pipeline industry, natural gas utilities, the liquefied petroleum gas industry, and coal and uranium surface mining operations. The Commission also has regulatory and enforcement responsibilities under federal law including the Surface Coal Mining Control and Reclamation Act, Safe Drinking Water Act, Pipeline Safety Acts, Resource Conservation Recovery Act and Clean Water Act.

Railroad Commission of
Texas website
<https://rrc.texas.gov/>

Audit Results

The Commission generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with payroll, refund of revenue, segregation of duties, system security or fixed assets. However, the Commission should consider making improvements to its travel, purchase, contract and payment card processes.

Auditors reissued three findings related to incorrect Texas Identification Numbers (TINs), incorrect billing account numbers and prompt payment errors from the last audit issued for the Commission in December 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>Travel Transactions</u>	Did travel transactions comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> • Lack of conservation of state funds. • Missing documentation. • Gratuities not reimbursable. 	Compliant, Findings Issued
<u>Contract Transactions</u>	Did procurement and contract-related payments comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> • Missing contract development and contract management documentation. • Inadequate cost estimate/ missing contract advisory team review. • Failure to report to the Legislative Budget Board. • Missing State Auditor's Office nepotism forms. 	Compliant, Findings Issued
<u>Purchase/ Payment Card Transactions</u>	Did purchase and payment card transactions comply with all pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> • Vendor warrant hold status not verified. • Missing sales receipt or invoice. • Missing receiving documentation. •  Interest not paid for 38 purchase and payment card transactions. 	Compliant, Findings Issued
Refund of Revenue	Did refund of revenue transactions comply with all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Security	Are Commission employees who are no longer employed or whose security was revoked properly communicated to the Comptroller's office?	No issues	Fully Compliant





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
<u>Targeted Analysis</u>	<p>Did the Commission comply with the federal mandate to handle payments involving the international movement of funds?</p> <p>Did the Commission correctly process travel and payment card documents to the state's payment card vendor?</p> <p>Did the Commission enter proper employee or vendor-level detail information in USAS as required by FPP A.043?</p>	<ul style="list-style-type: none">• Missing/incomplete Direct Deposit Authorization form.•  Incorrect billing account number.•  Incorrect TINs.	Compliant, Findings Issued



Key Recommendations

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

- The Commission should update its policies and procedures and train applicable personnel to ensure it uses the most cost-efficient method of travel.
- The Commission must obtain proper documentation and include appropriate signatures on each travel voucher before processing payment.
- The Commission must ensure that all travel expense claims are thoroughly reviewed for legality and accuracy before payment.
- The Commission should develop and maintain procurement planning and contract management documentation, such as the acquisition plan and quality assessment plan.
- The Commission should improve its process for estimating contract costs.
- The Commission must report contracts, including all amendments, to the Legislative Budget Board (LBB).



- The Commission must follow procurement procedures to ensure purchasing staff completes and signs the State Auditor's Office (SAO) nepotism disclosure form before contract execution.
- The Commission must ensure employees check vendor warrant hold status before using a payment card for purchases over \$500 and maintain a screen shot of the results for audit review.
- The Commission must acquire enough supporting documentation for each payment and maintain it for audit review.
- The Commission must review its procedures to ensure it submits payment information for processing and releases each payment in a timely manner to avoid incurring interest liabilities.
- The Commission must ensure all payees who request direct deposit payments submit a completed, signed Direct Deposit Authorization form with the international payment verification question answered.
- The Commission should improve its review of payment card statements to ensure payments are posted correctly.
- The Commission must modify its process for entry into the Uniform Statewide Accounting System (USAS) to include proper employee and vendor-level detail information.



Detailed Findings

Payroll Transactions

Auditors developed a sample totaling \$691,437.73 from a group of 30 employees and 129 payroll transactions to ensure the Commission complied with the GAA, [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Travel Transactions

Auditors developed a sample of 20 travel transactions totaling \$6,133.57 to ensure the Commission complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed the following exceptions for this group of transactions.

Lack of Conservation of State Funds

In one travel voucher, the Commission reimbursed a traveler for mileage in a personal vehicle for official business. However, based on applicable car rental rates, taxes, gas prices and the standard mileage rates in effect at the time, renting a vehicle would have cost \$284 less.

The Commission's travel guidelines require each travel arrangement to be the most cost effective considering all relevant circumstances. However, the guidelines do not require the traveler to complete a cost comparison of mileage versus renting.

[Texas Government Code, Section 660.007\(a\)](#) requires each state agency to ensure each travel arrangement is the most cost effective considering all relevant circumstances. Agencies must examine all travel reimbursements before payment to ensure compliance. See [Textravel – General – Responsibilities](#).

Recommendation/Requirement

The Commission should require a cost analysis of each travel arrangement before management approval to ensure the most cost-efficient method of travel.

In addition, the Commission should provide training to applicable personnel to ensure staff uses the most cost-effective arrangements.

Commission Response

We agree with this recommendation. The RRC Training/Travel Request form has been updated to better plan travel costs. This update will help ensure that the travel cost analysis is completed and the most cost-efficient method of travel is utilized. Financial Services will continue to educate the agency staff on cost-efficient travel procedures. This will be reemphasized in all agency travel training.



Missing Documentation

Auditors identified another travel voucher with reimbursement for travel expenses in the sample with no documentation for the reimbursement of lodging expenses. In addition, the employee did not sign the travel voucher to certify the expenses were true, correct and unpaid. The Commission did not provide a cause for the missing lodging receipt or the unsigned travel voucher.

Without proper documentation, auditors could not determine whether the information entered into USAS was an accurate reflection of the intended purchases made. The Commission must maintain documentation to verify payments are valid and to ensure a proper audit trail, per [34 Texas Administrative Code Section 5.22\(i\)\(2\)](#).

Per [Texas Government Code, Section 660.027\(b\)\(2\)](#), the employee incurring the expense or, if the employee is unavailable, a Comptroller-approved substitute, must approve the required information and documentation.

Recommendation/Requirement

The Commission must obtain proper documentation and include appropriate signatures on each travel voucher before processing payment. The supporting documentation must be maintained in agency files at least until the end of the second appropriation year after the appropriation year in which the document is processed through USAS.

Commission Response

We agree with this recommendation. The Commission will ensure that supporting documentation is maintained in the agency files in accordance with the retention policy. Accounts Payable staff has been refreshed on the procedures for verifying and storing documentation.

The Commission has started utilizing software for electronic signatures on supporting documentation and travel authorization requests. This process change will make it easier to store electronic records.

Gratuities Not Reimbursable

Auditors identified a third travel voucher that reimbursed an employee for expenses that included a gratuity. The Commission did not provide a cause for this error. However, as a result of the audit, the Commission indicated it obtained reimbursement from the employee.

[Texas Constitution, Article III, Section 51](#), prohibits the use of the state's money for private purposes, including gratuities. See [Texttravel Meals/Lodging – Meals – Prohibited Reimbursements](#).



Recommendation/Requirement

The Commission must ensure all travel expense claims are thoroughly reviewed for legality and accuracy before payment.

Commission Response

We agree with this recommendation. Financial Services will ensure travel reimbursement requests are peer reviewed prior to payment. In addition the travel accountant will train the travel coordinators in each division on properly filling out the travel reimbursement voucher and make clear what are allowable expenses. The agency has collected the gratuities that were paid in error from the employee in this case.

Contract Transactions

Auditors selected two contracts totaling \$4,360,437 and \$2,749,716 for review and developed a sample of 10 contract payments totaling \$453,627 to ensure the Commission complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed exceptions for this group of transactions.

Contract	Amount	Type of Service	Procurement Cycle				
			Planning	Procurement Method Determination	Vendor Selection	Contract Formation/Award	Contract Management
Contract A	\$4,360,437	Well Plugging and Related Services	<ul style="list-style-type: none"> Missing contract needs assessment. Inadequate cost estimate. Missing contract acquisition plan. 	No exceptions	No exceptions	<ul style="list-style-type: none"> Inadequate cost estimates and missing contract advisory team review. Missing SAO nepotism forms. Failure to report to the LBB. 	Missing quality assessment plan
Contract B	\$2,749,716	Professional Environmental Engineering Services	<ul style="list-style-type: none"> Missing contract needs assessment. Inadequate cost estimate. Missing contract acquisition plan 	No exceptions	No exceptions	<ul style="list-style-type: none"> Missing contract advisory team review. Failure to report to the LBB. 	Missing quality assessment plan

Missing Contract Development and Contract Management Documentation

Both contracts lacked sufficient planning documentation, such as a contract developer's contract administration or acquisition plan, a needs assessment, and a contract manager's quality assessment plan (QAP).



The acquisition plan and other documents listed above ensure the procurement is solicited, negotiated, executed and managed to deliver the best value to the state. The acquisition plan also ensures the contract requirements are satisfied, the goods and services are delivered in a timely manner and the financial interests of the agency are protected. A well-drafted acquisition plan helps the contract manager manage the contract throughout its term.

The success of a procurement depends on the quality of the procurement processes and the supporting documentation to ensure the processes are monitored and functioning. Therefore, the needs assessment must contain enough detail to identify the key business requirements. As part of the needs assessment, the agency can conduct market research, study historical spend, use benchmarking and issue a request for information to the vendor community.

The QAP helps the contract manager assess risk and monitor deliverables after contract execution. QAP tools include contract monitoring schedules and findings reports. The contract manager or designated employee is also responsible for retaining contract documents for the amount of time determined by law and the agency's record retention schedule. See [State of Texas Procurement and Contract Management Guide – Contract Management](#).

Recommendation/Requirement

To ensure successful procurements, appropriate transition from contract development to contract management and monitoring, and best practices in contracting, the Commission should develop and maintain procurement planning and contract management documentation such as the acquisition plan, needs assessment and QAP.

Commission Response

We agree with this recommendation. Procurement planning tools have been created and implemented by RRC Contract Management Section. Contract Managers, sponsors, stakeholders and the Office of General Council (OGC) utilize these procurement tools by working in collaboration. The needs and risks assessment forms are used to identify agency needs, problems/opportunities, project goals, cost estimates and project timelines. RRC Contract Managers manage projects from cradle to grave. There is no transition from contract development to contract management and monitoring. Also, an RRC Acquisition Planner is used at the onset of each project to forecast, manage and track solicitation activities and dates throughout the procurement cycle.

A Contract Administration Flow Chart and detailed narrative is a process flow chart and was created and shared with RRC internal customers to educate sponsors, stakeholders and end users on how to effectively monitor contracts. The Contract Administration Flow Chart includes compliance reporting activities, routine contract duties, monitoring work of contractor, and completing necessary contract documents.



The Contract Administration Flow Chart and narrative has been in practice for over a year and is posted on RRC's intranet and on the Contract Management internal shared drive.

Inadequate Cost Estimate/Missing Contract Advisory Team Review

The Commission significantly underestimated contract values for both contracts and consequently failed to submit the solicitation documents to the Contract Advisory Team (CAT) for review. The Commission estimated the value of Contract A at \$750,000 and Contract B at \$300,000, but the actual values were \$4,360,437 and \$2,749,716.

The Commission must submit the solicitation documents to CAT for review regardless of procurement method for contracts executed before Sept. 1, 2018, and valued at \$1 million or more. The contract total value is the estimated dollar amount the Commission may be obligated to pay over the whole lifespan of the contract including all proposed amendments, extensions and renewals. See [State of Texas Procurement and Contract Management Guide](#) – Solicitation – Reviews and Approvals.

The Commission must develop a cost estimate in the procurement planning phase and make an initial determination of the funding source for the procurement. Depending on the procurement, the Commission can develop a cost estimate from a vendor's advertised price list, through online research, or using standardized estimation methods based on historical spending. The purchaser can ask someone in the agency with knowledge in the subject area to help with the cost estimate. The cost estimate must be developed in good faith since it will be used to select the appropriate procurement method and to comply with any statutory requirements applicable to the purchase based on contract value, funding source or expenditure restrictions. See [State of Texas Procurement and Contract Management Guide](#) – Procurement Planning.

The Commission did not provide a cause for this finding. However, the Commission indicated it is working with the applicable business areas to determine future needs at the time of solicitation to better estimate the cost of the contracts.

Recommendation/Requirement

The Commission should improve its process for estimating contract costs. This will ensure the Commission's compliance with applicable statutory requirements, such as submitting solicitation documents to the CAT for review.

Commission Response

We disagree with this recommendation. Contract Management has implemented procurement planning tools such as an Acquisition Planner and Needs and Risk Assessment forms that will assist in identifying cost estimates. Both the Needs and Risk Assessment forms have questions related to fiscal considerations, projected annual cost, method of finance, number of fiscal year projections, and ongoing maintenance and support cost.



Texas Government Code Section 2155.150 delegates to the RRC all purchasing functions related to well plugging, site remediation, and abandoned mine lands.

Although the two audited contracts were originally under \$1M, through amendments they did surpass \$1M. Based on RRC's interpretation of Texas Government Code Section 2155.150, the two contracts in question did not require CAT review based on the contract NTE's.

Comptroller Response

Despite the Commission's implementation of procurement planning tools to assist in developing cost estimates, the Commission failed to accurately estimate the total value of the contracts by not accounting for each renewal/amendment provisioned in the contracts. A correct estimate of the total value would have required the Commission to comply with more than one applicable statutory requirement, one of which is submitting the solicitation documents to the Contract Advisory Team (CAT) for review.

Texas Government Code, section 2155.150 only allows the Commission to choose the type of procurement method that provides the best value to the Commission. The Texas Government Code does not exempt the Commission from other applicable statutory requirements, such as submitting the solicitation documents to CAT for review. Although a Not to Exceed (NTE) value may be adjusted upward or downward depending on the changes in the scope of work or the associated specification, there is no evidence of any additional benefits received to account for the increased NTEs with each renewal and it is not clear how having an NTE in each contract caused the underestimation of the total estimated contract value.

If the Commission would like to clarify the delegation of the purchasing function versus exemption from statutory requirements for future audits, it should seek an attorney general opinion or amendment of the statute by the Legislature.

Failure To Report to the Legislative Budget Board (LBB)

The Commission failed to provide complete documentation to the LBB for both contracts. For one contract, it did not submit the executed contract, and for the other, it did not submit one contract amendment. The Commission indicated it will educate staff about the requirements for reporting contracts to the LBB.

According to the [GAA, Article IX, Section 7.04](#), each agency must report all contracts over \$50,000, regardless of funding source. The submission must include required documentation such as the award, solicitation documents, renewal, amendments, addendums, extensions, attestation letters and other supporting records.



Recommendation/Requirement

The Commission must report contracts, including all amendments, to the LBB to comply with the [GAA, Article IX, Section 7.04](#) and the [LBB Contract Reporting Guide](#).

Commission Response

We agree with this recommendation. Contract Management staff has been advised and instructed to upload all contract documentation to the LBB within 10 days. This activity is tracked on RRC's Acquisition Planners as well as the RRC's Contract Administration Process Flow Chart and becomes a part of the contract file.

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

Auditors identified one contract where the Commission failed to complete and sign the SAO nepotism disclosure form for each employee involved in procurement for contracts of at least \$1 million. According to the Commission, the omission was due to an oversight in the procurement process. The procurement might not be in full compliance without the SAO nepotism disclosure forms in place.

[Texas Government Code, Section 2262.004](#) requires state agency purchasers for major contracts to disclose any potential conflict of interest. See [State of Texas Procurement and Contract Management Guide](#) – Agency Review of Required Disclosures.

Recommendation/Requirement

The Commission must follow procurement procedures to ensure the SAO Nepotism Disclosure form is complete and signed by purchasing staff before contract execution. The Commission should maintain the SAO Nepotism Disclosure Statement form as part of the contract file.

Commission Response

We agree with this recommendation. Contract Management staff has been notified and instructed to initiate a SAO Nepotism Disclosure Form on all formal competitively bid solicitations regardless of the dollar value. This activity is tracked on the acquisition planners as well as other process flow charts and becomes a part of the contract file.

Purchase/Payment Card Transactions

Auditors developed a sample of 20 purchase transactions totaling \$8,772.05 and a sample of 20 payment card transactions totaling \$11,707.54 to ensure the Commission complied with the GAA, [eXpendit \(FPP I.005\)](#) and pertinent statutes. Audit tests revealed exceptions in these transactions.



Vendor Warrant Hold Status Not Verified

The Commission failed to check the vendor's status before making the purchases for nine payment card transactions over \$500. The Commission indicated that the warrant hold check was done but was not printed or retained, though staff has been trained to print and maintain the warrant hold check document.

State agencies must verify a vendor's hold status for non-emergency payments over \$500 made with payment cards. Per [34 Texas Administrative Code Section 5.57\(g\)\(6\)](#), a state agency cannot use payment cards for a purchase from a vendor on warrant hold.

Recommendation/Requirement

The Commission should review and update its procedures for checking and maintaining warrant hold status documentation for all applicable payment card purchases. The Commission must ensure that employees check each vendor's warrant hold status before using a payment card for purchases over \$500 and maintain the document for audit review.

Commission Response

We agree with this recommendation. The warrant hold check was done but not printed or saved as supporting documentation. The Purchasing section will ensure documentation of this step is saved with the purchasing files. The program areas will be retrained on the process during the annual purchasing training.

Missing Sales Receipt or Invoice

Auditors identified one purchase and one payment card transaction missing the receipt or invoice to support the payment. The Commission's procedures require employees to retain copies of sales receipts and invoices, but the Commission could not locate the required documents.

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

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

Supporting documentation including purchase orders, requisitions, contracts, invoices and receipts must be made available to the Comptroller's office in the manner required. See [34 Texas Administrative Code Section 5.51\(e\)\(2\)-\(3\)](#).



Recommendation/Requirement

The Commission must create and maintain sufficient supporting documentation for each purchase.

Commission Response

We agree with this recommendation. Staff has been trained on proper receiving of goods/services and p-card holders will be retrained on agency procedures and submitting sales receipts/invoices. Financial Services will obtain invoices and receipts prior to processing payments. We will ensure that sufficient supporting documentation is included in files once payments have been made.

Missing Receiving Documentation

Auditors identified one purchase and five payment card transactions missing documentation to verify receipt of goods purchased. The Commission indicated that personnel have been trained to document and maintain the receipt of goods and services.

Without proper documentation, auditors could not determine whether the items ordered were received or whether the information entered in USAS was an accurate reflection of the intended purchases made. The Commission must maintain proper documentation to ensure a proper audit trail and verify payments are valid.

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

The Commission must provide documentation including purchase orders, requisitions, contracts, invoices and receipts to the Comptroller's office in the manner required. See [34 Texas Administrative Code Section 5.51\(e\)\(2\)-\(3\)](#).

Recommendation/Requirement

The Commission must create supporting documentation for each payment and maintain it for audit review. The Commission should review and update its documentation procedures.

Commission Response

We agree with this recommendation. Staff has been trained on proper receiving of goods/services. Procedures have been updated to confirm receiving on each item or service and staff will include proper documentation in the files.



Prompt Payment Errors

In the sample, auditors identified 38 transactions paid late and without interest to the payment card vendor. The Commission indicated that the vendor requested not to be paid the interest. However, the prompt payment law does not allow vendors to refuse payment of interest, so the Commission must pay interest to this vendor. The Commission also paid \$2,496.99 in prompt payment interest during the audit period.

According to the prompt payment law, [Texas Government Code, Section 2251.021\(a\)](#), a government entity's payment is overdue 31 days after the later of:

- The date the government entity receives the goods under the contract.
- The date the performance of the service under the contract is completed.
- The date the government entity receives an invoice for the goods or service.

The Comptroller's office computes and automatically pays any interest due under the prompt payment law when the Comptroller's office is responsible for paying the principal amount on behalf of the agency. See [Texas Government Code, Section 2251.026](#).

Recommendation/Requirement

The Commission must review its procedures to ensure it both submits payment information for processing and releases each payment in a timely manner to avoid incurring interest liabilities. In addition, the Commission must verify staff enters proper due dates to ensure that, if interest is due, it is paid correctly to vendors. See [eXpendit – Prompt Payment](#).

Commission Response

We agree with this recommendation. The Accounts Payable section will monitor the accuracy of due dates on all payments. Accounts Payable will correct USAS errors in a timely manner to ensure that payments process on time. We will continue to train staff on the proper use of payment due dates. We will also verify all dates during quality control checks that are performed each day before the CAPPS batch goes to USAS.

Refund of Revenue

Auditors developed a sample of 10 refund of revenue transactions totaling \$3,526,532,70 to ensure the transactions were supported by appropriate documentation and complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.



Security

The audit included a security review to identify Commission employees with security access in USAS or on the voucher signature cards who were no longer employed or whose security access had been revoked. Upon termination or revocation, certain deadlines must be met so that security access can be revoked in a timely manner. Audit tests revealed no exceptions.

Internal Control Structure

The review of the Commission's internal control structure was limited to obtaining reports identifying current users' access. The review did not include tests of existing mitigating controls. The audit tests conducted revealed no exceptions in user access.

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.

Targeted Analysis

The audit included a review of various special reports generated for the Commission outside the sample. Audit tests revealed the following exceptions.

Missing/Incomplete Direct Deposit Authorization Form

From a report generated outside of the sample, auditors identified two missing Direct Deposit Authorization forms and one incomplete form out of 10. Without a properly completed form on file, the Commission was unable to indicate whether state funds were forwarded to a financial institution outside the United States.

The [Office of Foreign Assets Control \(OFAC\)](#) requires all direct deposit payments transmitted outside the United States be identified and monitored. To avoid potential federal penalties, each state agency must:

- Show due diligence in processing all direct deposit payments.
- When possible, ensure direct deposit payments it issues to accounts at U.S. financial institutions are not ultimately being transferred to financial institutions outside the United States.



International automated clearing house transactions (IATs) are payments destined for a financial institution outside the United States. The Comptroller's office does not participate in IATs. If a payee informs an agency that a payment is destined for a financial institution outside of the United States, then the agency may not set up that payee for direct deposit.

Without current and properly completed forms on file, the Commission is unable to follow the direct deposit requirements.

Recommendation/Requirement

The Commission must ensure all payees who request direct deposit payments submit a completed, signed Direct Deposit Authorization form with the international payment verification question answered. A Direct Deposit Authorization form should not be processed if the form is unsigned or incomplete.

Commission Response

We agree with this recommendation. The direct deposit accounts were previously set up in TINS and we made an address change to one vendor account adding a new mail code but no bank information was changed. The other item in the finding was already set up in TINS as well and we confirmed directly with the vendor that banking information was correct. No form was submitted. The agency will obtain signed vendor direct deposit forms for any future TINs information changes.

Incorrect Billing Account Number

The audit included a review of special reports run for the Commission outside the sample. One of the special reports lists transactions with incorrect billing account numbers as prescribed by [FPP A.043](#) and [FPP E.023](#).

During the review of this report, auditors identified 50 travel and payment card documents totaling \$92,236.54 that were processed incorrectly to the state's payment card vendor. The Commission failed to provide the correct billing account number as required by [FPP A.043](#) and [FPP E.023](#). As a result, the vendor might be unable to post payments directly to the Commission's payment and travel card accounts. The Commission stated it will provide training to ensure its staff enters the correct information.

Recommendation/Requirement

The Commission must ensure payments for third-party transactions are processed in accordance with [FPP A.043](#) and [FPP E.023](#). To avoid account delinquency or reconciliation issues, the Commission should improve its review of payment card statements to ensure staff posts payments correctly.



Commission Response

We agree with this recommendation. Staff has reviewed and updated the payment process and procedures for payment card vouchers to ensure that the correct billing account number is used. Staff verifies the billing account number when entering payments, and again when performing quality control checks to review payment entries for accuracy.

Incorrect Texas Identification Numbers (TINs)

Auditors identified 18 travel reimbursement transactions totaling \$5,597.07 with incorrect TINs because the Commission entered the TIN of the vendor providing the service instead of the TIN of the traveler incurring the expense.

In the same report, the Commission entered the employee's TIN instead of the TIN of the entity receiving the payroll reimbursement payment in two payroll reimbursement transactions totaling \$540.

In addition, auditors identified two payment card transactions totaling \$310.34 with incorrect TINs. The Commission used the TIN of the payment card vendor instead of the TIN of the original vendor associated with the expense.

The use of the correct TIN is necessary to capture the actual vendor/individual doing business with the state. Improper processing procedures result in inaccurate reporting of expenditures for public information requests. See [Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements \(FPP A.043\)](#) for how state agencies must process third-party payments through USAS.

Recommendation/Requirement

The Commission must modify its method for entry in USAS to ensure it enters proper employee and vendor-level detail information required by [FPP A.043](#). This information is essential for accountable and open government. It is also used for public information requests and post-payment auditing purposes.

Commission Response

We agree with this recommendation. Staff is aware and has been trained on the requirement to use the correct vendor IDs on payments. The division p-card coordinators have been trained and are required to obtain proper vendor/true ID numbers before making purchases. The daily peer review process will also help catch any possible oversights from the program area.



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

The Commission 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 Commission should implement the recommendations listed in the Detailed Findings of this report. It is the Commission'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

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.



may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the Commission's documents comply in the future. The Commission must ensure that the findings discussed in this report are resolved.

Audit Methodology

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

Fieldwork

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based on the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcation or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what action or additional procedures would be appropriate.

Audit Authority

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

Audit Team

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Appendix 2 — Definition of Ratings

Compliance Areas

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

Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented. These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Noncompliant

Repeat Finding Icon Definition



This issue was identified during the previous post-payment audit of the agency.