



# An Audit of the Texas Health and Human Services Commission

Audit Report # 529-19-01  
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**Glenn Hegar**  
Texas Comptroller of Public Accounts





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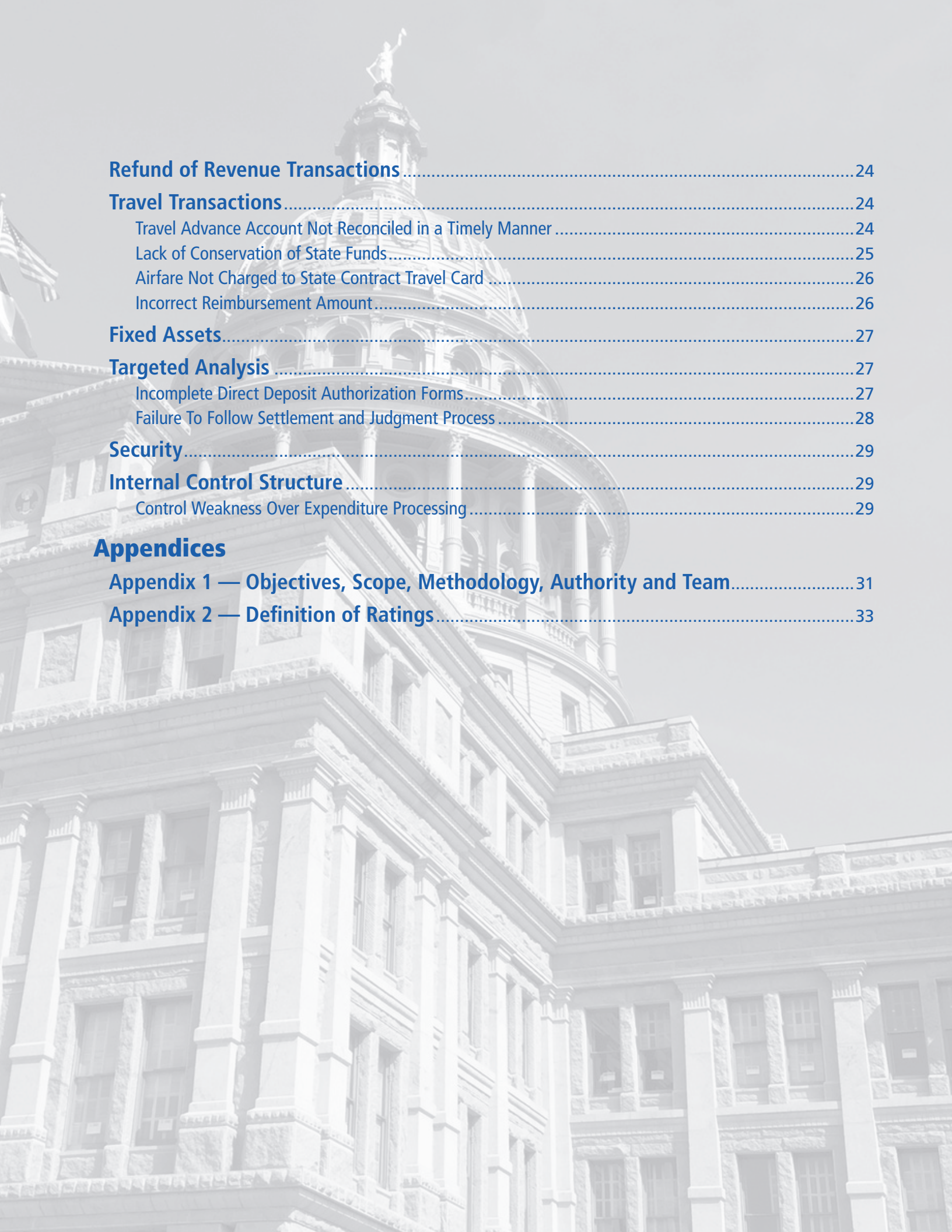
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# Executive Summary

## Purpose and Scope

The objectives of the Texas Health and Human Services Commission (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 Texas State Health and Human Services Commission has hundreds of programs and services to help improve the health, safety and well-being of Texans. The vision of the Commission is to make a positive difference in the lives of people served.




Texas Health and Human  
Services Commission website  
<https://hhs.texas.gov/>

## Audit Results

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


Auditors reissued four findings related to payment cards, travel and purchase/procurement from the last audit conducted at the Commission. Auditors originally issued these findings in November 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?	<ul style="list-style-type: none"> <li>• Underpayment of salary.</li> <li>• Overpayment of salary/direct deposit cancellation not processed timely.</li> <li>• Violation of warrant hold statutes for overpayment of salary.</li> </ul>	Compliant, Findings Issued
<u>Purchase/Procurement and Contract Transactions</u>	Did purchase and contracted services transactions comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> <li>• Missing receiving documentation.</li> <li>• Missing Centralized Master Bidders List (CMBL).</li> <li>• Failure to perform Electronic State Business Daily (ESBD) posting.</li> <li>• Missing State Auditor's Office (SAO) nepotism disclosure forms.</li> <li>• Missing Texas Ethics Commission Certificate of Interested Parties (Form 1295).</li> <li>• Pre-award Vendor Performance Tracking System (VPTS) report not evaluated/failure to report to VPTS.</li> <li>• Missing vendor compliance verifications.</li> <li>• Failure to report contract to Legislative Budget Board (LBB).</li> <li>• Incorrect Texas Identification Numbers (TINs).</li> </ul>	Compliant, Findings Issued
<u>Payment Card Transactions</u>	Did payment card transactions comply with all pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> <li>• Missing training verification documentation.</li> <li>• Missing invoice.</li> <li>• Incorrect TINs.</li> <li>• Discount not taken.</li> <li>•  Procurement process not followed/term contracts not used.</li> <li>• Incorrect document type/incorrect purchase category code (PCC).</li> <li>•  Incorrect billing account number.</li> <li>• Internal policy not followed.</li> <li>• Missing receiving documentation.</li> <li>•  Violation of warrant hold statutes.</li> </ul>	Noncompliant



Repeat Finding

Area	Audit Question	Results	Rating
Refund of Revenue	Did refund of revenue transactions comply with all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Travel Transactions</u>	Did travel transactions comply with all pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> <li>• Travel advance fund not reconciled in a timely manner.</li> <li>•  Lack of conservation of state funds.</li> <li>• Airfare not charged to state contract travel card.</li> <li>• Incorrect reimbursement amount.</li> <li>• Incorrect TINs.</li> <li>• Violation of warrant hold statutes for travel advance fund.</li> </ul>	Compliant, Findings Issued
Fixed Assets and State Property Accounting (SPA) System Report	Were tested assets in their intended locations and properly reported in the SPA system?	No issues	Fully Compliant
<u>Targeted Analysis</u>	Did the Commission comply with the federal mandate to handle payments involving the international movement of funds? Did the Commission comply with the settlement and judgment process.	<ul style="list-style-type: none"> <li>• Incomplete Direct Deposit Authorization forms.</li> <li>• Failure to follow settlement and judgment process.</li> </ul>	Compliant, Findings Issued
Security	Did all system access over payment comply with all Comptroller security guidelines?	No issues	Fully Compliant



Repeat Finding





Area	Audit Question	Results	Rating
<u>Internal Control Structure</u>	Are duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	Employees with overlapping security access for multiple duties.	Control Weakness Issues Exist



Repeat Finding

## Key Recommendations

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

- The Commission must enhance its internal controls to prevent incorrect payroll payments.
- The Commission must ensure no payment is made without sufficient supporting documentation and that it maintains supporting documentation for audit review.
- The Commission must ensure it abides by the procurement procedures stipulated in the [\*State of Texas Procurement and Contract Management Guide\*](#).
- The Commission must ensure it retains all supporting documents for procurement and contracts, such as:
  - State Auditor's Office (SAO) nepotism disclosure form.
  - Texas Ethics Commission Certificate of Interested Parties (Form 1295).
  - Documentation of reporting contract awards and purchases to the Legislative Budget Board (LBB).
  - Pre-award Vendor Performance Tracking System (VPTS) verified documentation and documentation for VPTS-reported purchases over \$25,000.
  - Documentation of vendor compliance verification before purchase, contract award or renewal.
- The Commission should improve its review of payment card statements to ensure payments are posted correctly.
- The Commission should ensure its staff is properly trained on all policies and procedures relating to the payment cards. Before selecting a procurement method, the Commission should determine if the items it needs to purchase are offered under existing term contracts.



- The Commission must ensure that employees verify vendor warrant hold status before using a payment card for purchases over \$500 and must maintain documentation for audit review.
- The Commission must modify its method used for entry in the Uniform Statewide Accounting System (USAS) and ensure the USAS entries include proper employee- and vendor-level details.
- The Commission should reconcile the travel advance account in a timely manner.
- The Commission should update its travel policies and procedures, and provide training to applicable personnel to ensure it uses the most cost effective travel method.
- The Commission must ensure that all future airfare is charged to the state-issued travel credit card and that the state contract is used.
- The Commission must ensure that all travel expense claims are thoroughly reviewed for legality and accuracy before payment.
- The Commission must ensure all payees requesting direct deposit payments submit a completed, signed direct deposit authorization form with the international payment verification question answered.
- The Commission must ensure that it follows settlement and judgment processing guidelines.
- The Commission must implement additional controls over expenditure processing that segregate each accounting task to the greatest extent possible.





# Detailed Findings

## Payroll Transactions

Auditors developed a sample from a group of 60 employees and 358 payroll transactions totaling \$977,854.92 to ensure the Commission complied with the GAA, [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Audit tests revealed exceptions for this group of transactions.

## Underpayment of Salary Amount

Auditors found the Commission paid one employee an amount less than the salary authorized on the employee payroll action documentation. According to the Commission, the payment error was due to the manager updating the work schedule after payroll had been processed. This caused the scheduled hours for the month to update from 176 hours to 168 hours, resulting in an underpayment of \$49.42.

## Recommendation/Requirement

The Commission must review its controls and personnel records to ensure accuracy and completeness, and ensure its internal operating procedures include quality-control measures to detect and prevent incorrect compensation. See [34 Texas Administrative Code Section 5.40\(c\)](#).

## Commission Response

*Employee was promoted mid-month, which was not entered in the CAPPs system by the manager until after the monthly payroll processed. Action taken to ensure compliance is PTLL is sending managers a monthly reminder via email prior to when the monthly payroll is calculated to ensure all pay impacting transactions, which includes promotions, are entered before the monthly payroll is calculated.*

## Overpayment of Salary/Direct Deposit Cancellation Not Processed in a Timely Manner

In a report generated outside of the sample, auditors identified 36 employees with incorrect salary payments resulting in \$6,956.16 in overpayments. According to the Commission, these issues occurred because managers submitted late notifications of employee terminations. See [Texas Payroll/Personnel Resource – Overpayments](#) and [34 Texas Administrative Code Section 5.40\(b\)](#).



In addition, a terminated employee was overpaid \$726.87 because the direct deposit reversal was not requested in a timely manner. The direct deposit payment was transmitted out of the state's treasury to the employee's financial institution resulting in an overpayment. The Commission stated that human resource functions are heavily dependent on manager self-service. In this instance, it would have been the responsibility of the employee's immediate manager to terminate the employee and report the termination promptly to the payroll department. A direct deposit cancellation was not processed by the deadline because the payroll department was not informed of the termination. See [34 Texas Administrative Code Section 5.13](#) and [TexPayment Resource – Payroll Reversals](#).

### Recommendation/Requirement

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The Commission must enhance its internal controls to prevent incorrect salary payments. The Commission should attempt to recover the amount of overpayment in accordance with [Texas Government Code, Chapter 666](#).

The Commission should develop a process for its managers to inform the payroll department as soon as they are aware of possible terminations or other situations that may result in an overpayment. This will allow the Commission to remove related transactions from the batch file before it transmits or to process a direct deposit cancellation before the deadline.

### Commission Response

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*An attempt to resolve the overpaid condition was attempted timely to call back the employee's pay. However, the collection was unsuccessful because there were insufficient funds in the ex-employee's bank account to recover the overpaid dollars. A letter was sent to the employee requesting payment of the overpaid amount on November 26, 2018.*

*This type of overpaid condition presents when an employee separates from employment after the direct deposit deadline. The remedy to resolve the condition is to execute a direct deposit call back from the employee's bank. If there are insufficient funds available to collect the full amount of the overpaid dollars the last action available is to send a letter to the ex-employee requesting payment of the overpaid amount.*

*HHSC will continue to follow Comptroller policies to ensure compliance.*



## Purchase/Procurement and Contract Transactions

Auditors developed a sample of 60 purchase/procurement transactions totaling \$23,325,543.91, as well as nine transactions totaling \$1,319,012.40 belonging to two vendor contracts valued at \$45,000,000 and \$1,047,649, 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 the following exceptions in the purchase/procurement and contract transactions.

### Missing Receiving Documentation

Auditors identified one purchase/procurement and two payment card transactions missing documentation to verify receipt of goods purchased. The Commission indicated that personnel have been trained to ensure that the receipt of goods or services is documented and is maintained.

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 accurate documentation to verify that payments are valid and to ensure a proper audit trail.

Per [34 Texas Administrative Code Section 5.51\(c\)\(1\)\(D\)](#), a state agency, its officers and employees must ensure that the agency maintains necessary documentation to prove that each payment is legal, proper and fiscally responsible.

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

### Recommendation/Requirement

The Commission must ensure that it creates supporting documentation for each payment and maintains it for audit review. The Commission should review and update its procedures for maintaining proper supporting documentation for all purchases.

### Commission Response

*The agency agrees with this finding that supporting documentation must be maintained for audit review. The AP Policy and Procedures Handbook will be updated to ensure that the requirement for maintaining proper supporting documentation for all purchases is clearly identified.*





## Missing Centralized Master Bidders List (CMBL)

The Commission did not conduct a CMBL search of all eligible suppliers for one purchase/procurement transaction before making the purchase. The Commission stated this was due to an oversight.

Unless exempted by law, agencies must use the CMBL for all procurements subject to the authority of the Statewide Procurement Division (SPD). Agencies must also use the CMBL to gather information for noncompetitive procurement processes and vendor performance data.

Agencies must print the awarded vendor's CMBL profile showing the expiration date for file documentation. See [State of Texas Procurement and Contract Management Guide – Centralized Master Bidders List](#). Agencies must retain proof that they checked the CMBL system before awarding or renewing a contract. See [Texas Government Code, Sections 2155.263](#) and [2155.264](#), and [34 Texas Administrative Code Section 20.107\(g\)](#).

### Centralized Master Bidders List (CMBL)

The CMBL is a database of registered vendors who have provided contact information, as well as a list of the goods and services they offer. Unless exempted by law, agencies must use the CMBL for all procurements subject to the authority of the Statewide Procurement Division and to gather information for noncompetitive procurement processes and vendor performance data.

## Recommendation/Requirement

To ensure compliance with state procurement laws and rules, the Commission must use the CMBL for all purchases, including services, for which competitive bidding or competitive sealed proposals are required. The Commission must include a copy of the dated CMBL search results in the procurement file.

## Commission Response

*HHSC PCS has implemented several policies and procedures since this audit time frame. In July of 2018 the Office of Compliance and Quality Control, on behalf of Procurement and Contracting Services, updated the PCS 160 – HHS Solicitation Checklist – for RFPs, RFAs, and RFQs to include all requirements to be completed for RFx procurements. In addition, in February of 2019 the policies and procedures for open market purchases and IFB templates were updated as well. At the end of the procurement, the purchaser, as well as the purchaser's manager, are required to sign and certify that all actions have been completed and included in the procurement file. The checklist was uploaded to the PCS SharePoint folder for purchasers to access. The checklist will continue to be updated as needed to ensure compliances.*



## Failure To Perform Electronic State Business Daily (ESBD) Posting

Auditors identified one purchase/procurement transaction where the Commission did not meet the solicitation advertisement requirements. The procurement file did not contain proof of posting a contract over \$25,000 on the ESBD. The Commission stated that it was unable to locate the document in the procurement file and the purchaser is no longer employed with the Commission.

SPD requires agencies 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.

According to [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 Commission must strengthen its controls to ensure that any contract over \$25,000 is posted for the proper duration. Failure to post a qualifying purchase for the mandatory period could void the contract.

The Commission must make supporting purchase documentation available in an audit to justify the validity of each payment. The Commission must ensure it retains adequate supporting documentation for all expenditures before processing the payment.

### Commission Response

*HHSC PCS purchasing staff is aware of the requirement to post solicitations over \$25,000 to the ESBD.*

*The PCS operating procedures require all RFX procurement be submitted to CQC for review and approval prior to posting the solicitation to the ESBD. In July of 2018 the Office of Compliance and Quality Control, on behalf of Procurement and Contracting Services, updated the PCS 160 – HHS Solicitation Checklist to include all requirements to be completed for RFX procurements. In addition, in February of 2019 the policies and procedures for open market purchases and IFB templates were updated as well. At the end of the procurement, the purchaser, as well as the purchaser's manager, are required to sign and certify that all actions have been completed and included in the procurement file. The policies and procedures will continue to be updated as needed to ensure compliances.*



Contract	Amount	Type of Service	Procurement Cycle				
			Planning	Procurement Method Determination	Vendor Selection	Contract Formation/Award	Contract Management
Contract A	\$45,000,000	Professional Services	No exceptions	No exceptions	<ul style="list-style-type: none"><li>Missing SAO nepotism disclosure forms.</li><li>Missing Texas Ethics Commission Disclosure of Interested Parties Certificate (Form 1295).</li><li>Missing vendor compliance verifications.</li></ul>	No exceptions	Failure to report to the LBB
Contract B	\$1,047,649	Professional Services	No exceptions	No exceptions	<ul style="list-style-type: none"><li>Missing SAO nepotism disclosure forms.</li><li>Missing vendor compliance verifications.</li><li>Pre-award VPTS report not evaluated/failure to report to VPTS in a timely manner.</li></ul>	No exceptions	No exceptions

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

Auditors identified two contracts totaling \$46,047,649 where the Commission failed to provide completed, signed SAO nepotism disclosure forms for each employee involved in the procurement.

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. Without the SAO nepotism disclosure form in place, the procurement might not be fully in compliance. According to the Commission, the purchaser is no longer employed at the Commission and it was unable to locate the forms.

[Texas Government Code, Section 2262.004](#) requires state agency purchasers to disclose relationships that might pose a conflict of interest in awarding a major contract. See [State of Texas Procurement and Contract Management Guide](#) – SAO Nepotism Statement for Purchasing Personnel.

## Recommendation/Requirement

The Commission must enhance its purchase/procurement policies and procedures to ensure the SAO nepotism disclosure form is complete and signed by the purchasing staff before executing a contract with a vendor. The Commission should maintain the SAO nepotism disclosure form as part of the procurement file.





## Commission Response

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*HHS Procurement and Contracting Services has implemented a new process for non-disclosure, conflict of interest and nepotism requirements and forms. The new policy went into effect Oct. 1, 2019. All forms are completed electronically using DocuSign and can also be found on the PCS SharePoint Policies and Forms site. In addition, in July of 2018 the Office of Compliance and Quality Control, on behalf of Procurement and Contracting Services, updated the PCS 160 – HHS Solicitation Checklist. This includes purchasers obtaining the nepotism form, when required, and keeping a copy of the completed form in the official procurement file. At the end of the procurement, the purchaser, as well as the purchaser's manager, is required to sign and certify that all actions have been completed and included in the procurement file.*

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

Auditors identified one contract for \$45,000,000 where the required Texas Ethics Commission (TEC) Certificate of Interested Parties (Form 1295) was missing. Agencies must complete Form 1295 for certain contracts with a value of \$1 million or more. Before the contract is awarded, the vendor must give the agency a completed, signed form with the certificate of filing number and date. The contract developer then acknowledges the form on the TEC website. The Commission stated that at the time of the procurement, a policy was not in place that outlines who is responsible for ensuring the form is filed and obtained.

It is a best practice to include a reference to Form 1295 in the solicitation to allow the vendor to gather the pertinent information early in the process.

## Recommendation/Requirement

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The Commission must update its policies and procedures to ensure the form is filed and obtained. The Commission must ensure any vendor involved in contract awards of \$1 million or more completes Form 1295 located on the [TEC website](#).

## Commission Response

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*HHSC PCS purchasing staff knows to obtain a copy of Form 1295 Texas Ethics Commission Certificate of Interested Parties for awarded vendors involved in a contract of \$1 million or more. HHSC has implemented several improvements since summer of 2018, including the RFX operating procedures, checklist and templates to ensure compliance. As stated above the Office of Compliance and Quality Control, on behalf of Procurement and Contracting Services, updated the PCS 160 – HHS Solicitation Checklist to include all requirements to be completed for RFX procurements. At the end of the procurement, the purchaser, as well as the purchaser's manager, is required to sign and certify that*



*all actions have been completed and included in the procurement file. This includes obtaining the disclosure of interested parties from a vendor, when required, before a contract is executed. The policies and procedures and checklist will continue to be updated as needed to ensure compliance.*

## **Pre-Award Vendor Performance Tracking System (VPTS) Report Not Evaluated/Failure To Report To VPTS**

Auditors identified nine purchase/procurement transactions totaling \$708,240.15 where the Commission did not evaluate the vendor performance reports before awarding a contract. The Commission stated that the procedure for compliance checks was not in place at the time of procurement. Incorporating the review of the vendor performance report before awarding a contract allows the Commission to identify vendors that have exceptional performance and meet all the contract obligations, while protecting the state from vendors with unethical business practices. The Commission must consider all the information collected and evaluated before awarding a contract. [Texas Government Code, Section 2262.055](#) requires state agencies to use the VPTS to determine whether to award a contract to a vendor reviewed in the tracking system.

Auditors identified one contract totaling \$1,047,649 where the Commission did not report vendor performance to the VPTS in a timely manner when the contract ended. According to the Commission, the contract was reported to the VPTS but not in a timely manner. [Texas Government Code, Section 2155.089](#) requires state agencies to report vendor performance reviews to the VPTS.

SPD administers the VPTS for all agencies per [34 Texas Administrative Code Section 20.115\(b\)](#). The VPTS relies on participation by agencies to gather information on vendor performance. Agencies must report vendor performance on purchases over \$25,000 from contracts administered by SPD or any other purchase over \$25,000 made through delegated authority granted by SPD. Agencies are also encouraged to report vendor performance for purchases under \$25,000. Agencies submit the Vendor Performance Report electronically through the VPTS. See [State of Texas Procurement and Contract Management Guide](#) – Vendor Performance Tracking System Check and Vendor Performance Reporting.

## **Recommendation/Requirement**

The Commission must check SPD's VPTS before awarding a contract to determine whether to award a contract to a vendor and must report ongoing and completed contracts and purchases to VPTS to identify vendors demonstrating exceptional performance. A dated copy of the review results from the specified website must be retained as evidence and included in the procurement file.



The Commission must report contracts and purchases to VPTS to:

- Identify vendors that have exceptional performance.
- Aid purchasers in making best value determination based on vendor past performance.
- Protect the state from vendors with unethical business practices.
- Provide performance grades (A-F) in five measurable categories for the CMBL vendors.
- Track vendor performance for delegated and exempt purchases.

## Commission Response

*To ensure VPTS reporting requirements compliance, Procurement and Contract Services created the PCS 350 Vendor Performance Reporting policy for PCS to assist HHS Agency/ Programs with meeting these requirements. This Operating Procedure (OP) is effective as of November 2009 with the latest revision May 2020.*

*The Procurement and Contracting Services (PCS) Contract Management Support (CMS) unit has created the HHSC Checklists policy, which provides instructions and tools for contract managers to ensure compliance with Texas Government Code §2262.053 relating to contract file checklist requirements.*

*The policy includes HHSC Contract File Checklists (Forms 170-F and 170-M), and Procurement File Checklist (150-N) for contracts that are not initially facilitated by PCS-Procurement. These checklists were developed to assist contract managers in meeting statutory and agency requirements for complete and current contract files and included items in VPTS requirements. Contracting divisions and supervisors are responsible for ensuring the contract files are complete, certified, and uploaded by the designated contract manager.*

## Missing Vendor Compliance Verifications

Auditors identified purchase/procurement, payment card and contract transactions where the Commission was unable to provide a complete checklist of vendor compliance verification (VCV) documents. The Commission must provide a screen shot of each verification. The Commission indicated that at the time of procurement, a procedure for the VCV checks was not in place. The Commission stated the lack of payment card transaction vendor compliance checks was due to lack of training and will provide more staff training.

## Debarment Vendor Check Not Verified

Auditors identified seven purchase/procurement transactions and one contract where the Commission did not verify whether the vendor was on the [Debarred Vendor List](#) before entering into the purchase.





The Commission must check the Debarred Vendor List posted on the Comptroller's website to ensure the vendor has not been debarred by SPD. An agency must not award a purchase/procurement or contract to a debarred vendor. SPD may bar a vendor from participating in state contracts for substandard performance, material misrepresentations, fraud or breach of contract with the state or a specific agency. The Comptroller may also bar a vendor for 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.

## Violations of Warrant Hold Statutes

Auditors identified nine purchase/procurement transactions, two contracts and three payment card transactions where the Commission did not check the warrant hold status of the vendors. Auditors also identified three payment card transactions where the Commission verified the warrant hold status after the purchase. The Commission also made a payment to a vendor who was on warrant hold.

The warrant/payment hold statutes are:

- [Texas Education Code, Sections 57.48 and 57.482](#)
- [Texas Family Code, Section 231.007](#)
- [Texas Government Code Sections 403.055, 403.0551, 403.0552 and 2107.008](#)

A state agency may not proceed with a purchase made with local funds or a payment card purchase over \$500 until the warrant hold has been released. A state agency may not pay vendors or reimburse an officer or employee from petty cash, local funds and/or travel advances for a purchase if a payment is prohibited by the warrant hold statutes. See [34 Texas Administrative Code Section 5.57\(g\)\(6\)](#).

The warrant hold check must be performed no earlier than the seventh day before and no later than the date of contract execution for transactions involving a written contract. If the vendor is on warrant hold, a state agency may not enter into a written contract unless the contract requires the agency's payments to be applied directly toward eliminating the vendor's debt or delinquency. The requirement specifically applies to any debt or delinquency, regardless of when it arises. Although payments made through USAS are automatically checked for holds and the system identifies payments issued to persons with outstanding state debt, this does not relieve an agency from conducting the warrant hold status check, in accordance with [Texas Government Code, Section 2252.903\(a\)](#).

The Commission also failed to place three individuals on warrant hold who were indebted to the state due to unsettled travel advances, and failed to place two individuals on warrant hold who were indebted to the state due to salary overpayment. An agency must report a debt to the state by placing the debtor on warrant hold under [Texas Government Code, Section 403.055](#).



## Franchise Tax Check

Auditors identified one contract where the Commission did not search the vendor's franchise tax account status in the Comptroller's [account status directory](#). Not all vendors are required to pay franchise tax. The Texas franchise tax is a privilege tax imposed on each taxable entity formed or organized in Texas or doing business in Texas. The Comptroller's office is required by law to forfeit a company's right to transact business in Texas if the company has not filed a franchise tax report or paid a franchise tax required under the [Texas Tax Code, Section 171.251](#). If the corporate privileges are forfeited, 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](#). The Commission should consult agency counsel before awarding a contract to a vendor that does not have the right to transact business in Texas.

## Recommendation/Requirement

The Commission must conduct every VCV search before any purchase, contract award, extension or renewal. Results from each specified website search must be retained as evidence and included in the procurement file. The Commission must also ensure its employees follow procedures to verify warrant hold status before completing payment card transactions and that they place any vendor indebted to the state on warrant hold.

## Commission Response

*HHSC PCS has implemented several policies and procedures since this audit time frame. As mentioned earlier, the PCS 160 – HHS Solicitation Checklist and the PCS 150 checklist for procurements were updated to ensure compliance, which includes documenting the VCV search and adding it to the procurement file. The PCS 150-N was implemented this year as a tool for contract managers to ensure compliance for contracts that are not initially facilitated by PCS Procurement. In addition, in February of 2019 the policies and procedures for open market purchases and IFB templates were updated as well. Compliance and Quality Control (CQC) updated the Legal Entity Required Screening Guide that includes instructions and web addresses to use to complete the required vendor checks, outlined on the PCS Checklists. These documents were uploaded to the PCS SharePoint Folder for purchasers to access. The policies and procedures will continue to be updated as needed to ensure compliances.*

*The Health and Human Services Procurement Card Policy identifies the search requirement of VCV which specifically mentions the warrant hold search for purchases over \$500 dollars. When requesting a procurement card, an initial card holder training is required prior to receiving the card. Thereafter the training and HHS Procard Policy review is required on an annual basis. Also, the PCS Training Team is working to develop and deploy a Procard training webinar for on-demand viewing by all Procard holders.*



*In addition, the Procurement and Contracting Services (PCS) Contract Management Support (CMS) unit created the HHSC Checklists policy, which provides instructions and tools for contract managers to ensure compliance with Texas Government Code §2262.053 relating to contract file checklist requirements.*

*The policy includes HHSC Contract File Checklist 170-M and Procurement File Checklist (150-N) for contracts that are not initially facilitated by PCS-Procurement. These checklists were developed to assist contract managers in meeting statutory and agency requirements for complete and current contract files and include items on vendor check requirements. Contracting divisions and supervisors are responsible for ensuring the contract files are complete, certified, and uploaded by the designated contract manager.*

## Failure To Report to the Legislative Budget Board (LBB)

Auditors identified one contract for \$45,000,000 where the Commission failed to report contracts to the LBB. The base contract was budgeted not to surpass a limit of \$45,000,000. According to the Commission, this base contract receives a variety of services from a pool of four prequalified vendors. The Commission did not determine the dollar value of each subcontract because it awards those based on a work-order process. The Commission stated that it was given direction to only report contracts that have associated funding. According to the [GAA, Article IX, Section 7.04\(c\)](#), a state agency or institution of higher education must report all contracts over \$50,000 to the LBB.

## Recommendation/Requirement

The Commission must report contract awards and purchases to the LBB to comply with the [GAA, Article IX, Section 7.04\(c\)](#) and the [LBB Contract Reporting Guide](#).

## Commission Response

*PCS has confirmed with the Texas Legislative Budget Board Contracts and Oversight Team that PCS is reporting contract awards and purchases in compliance with the GAA, Article IX, Section 7.04(C) and the LBB Contract Reporting Guide.*

## Payment Card Transactions

Auditors developed a sample of 30 payment card transactions totaling \$33,748.28 to ensure the Commission complied with the GAA, [eXpendit \(FPP 1.005\)](#) and pertinent statutes. Audit tests revealed the following exceptions in these transactions.





## Missing Verification of Training Attendance

Auditors identified one payment card transaction for \$633.99 missing verification of training attendance required by [Texas Government Code, Section 656.052](#). The Commission stated there is no documentation available to prove the employee's attendance.

Proper supporting documentation for a purchase must be maintained or available at least until the end of the second fiscal year after the document was processed by USAS. See [34 Texas Administrative Code Section 5.51 \(e\)\(5\)\(A\)](#).

The Commission must make supporting documentation available to the Comptroller's office in the required manner. See [34 Texas Administrative Code Section 5.51 \(e\)\(2\)-\(4\)](#).

## Recommendation/Requirement

The Commission should enhance its policies and procedures to document training attendance, and must maintain supporting documentation to justify the payments.

## Commission Response

*The agency agrees with this finding that the supporting documentation must be maintained to document training attendance. The AP Policy and Procedures Handbook was updated in December 2018 to ensure that this requirement for employee training is clearly identified.*

## Missing Invoice

Auditors identified one payment card transaction for \$254.47 where the Commission was unable to locate the invoice needed to support the payment. 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 verify that payments are valid and to ensure a proper audit trail.

Per [34 Texas Administrative Code Section 5.51\(c\)\(1\)\(D\)](#), each state agency, its officers and employees must ensure that for each purchase document, the agency maintains necessary documentation to prove that each payment resulting from the document is legal, proper and fiscally responsible. Agencies must make supporting documentation available to the Comptroller's office in the required manner. The types of supporting documentation that the Comptroller's office may require include purchase orders, requisitions, contracts, invoices and receipts. See [34 Texas Administrative Code Section 5.51\(e\)\(2\)-\(3\)](#).



## Recommendation/Requirement

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The Commission must ensure no payment is made without sufficient supporting documentation, and must ensure it creates and maintains supporting documentation for audit review. The Commission should review and update its procedures for maintaining proper supporting documentation for all purchases.

## Commission Response

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*The agency agrees with this finding that supporting documentation must be maintained for audit review. The AP Policy and Procedures Handbook will be updated to ensure that the requirement for maintaining proper supporting documentation for all purchases is clearly identified.*

## Incorrect Texas Identification Numbers (TINs)

Auditors identified the following TIN errors:

- The Commission used an incorrect TIN for four payment card transactions. The Commission made the payments to the payment card vendor using the non-specific payment card TIN to process the transaction. These transactions were in summary and lacked the necessary vendor and transaction detail to determine where the purchases were made and what was purchased. According to the Commission, staff had believed that transaction detail was not required for service vendors.
- The auditor was unable to determine whether the payment card purchases or payments for three transactions were made in accordance with the GAA, [eXpendit](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Although the Commission provided the documentation for the payment card purchases, the auditor was unable to reconcile the amount that was entered in USAS since the transactions were processed with the nonspecific payment card TIN and/or since the transactions were grouped into one transaction using one comptroller object.
- In a report run outside the sample and covering the audit period, 18,690 payment card transactions were processed. The Commission used a nonspecific payment card TIN to process 9,415 payment card transactions, which is about 50 percent of the payment card transactions processed during that period. This nonspecific TIN should be used only on third-party payment card transactions if the TIN/mail code is unknown for a specific vendor and all efforts to obtain the vendor's TIN are unsuccessful.
- The Commission entered an incorrect TIN for the traveler incurring the travel expense in four travel reimbursement transactions in the sample and 14 travel and travel advance reimbursements outside the sample.



- The Commission used an incorrect TIN for non-payroll employee reimbursements in 14 purchase vouchers. Auditors also identified 13 petty cash reimbursements where the Commission used an incorrect TIN.

The Comptroller's office captures vendor-level details in USAS for public information requests, historically underutilized business (HUB) reporting and more. Improper processing procedures can result in inaccurate expenditure reporting for public information requests. A correct TIN is necessary to identify the actual vendor/individual doing business with the state. See [Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements \(FPP A.043\)](#), which explains how state agencies must process third-party payments through USAS.

### Recommendation/Requirement

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

### Commission Response

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*The agency agrees with this finding that correct identification of vendors is essential for an accountable and open government. The AP Policy and Procedures Handbook will be updated to include the requirement that verification of Texas Identification Numbers (TINs) for Procurement Card (Procard) purchases is clearly identified. HHSC will provide TINs access to accounting staff in State Office, Regional Administrative Support and Health and Specialty Care Services business areas to ensure verification.*

### Discount Not Taken

The Commission failed to take advantage of a two percent, 15-day discount offered by a vendor amounting to \$9.16 for one payment card transaction. According to the Commission, this was due to oversight.

The Commission must review all invoices upon receipt to determine if they include a discount. If the Commission determines that the discount is most beneficial to the state, the Commission should pay the invoice promptly.

### Recommendation/Requirement

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The Commission must follow its policies and procedures to ensure it is taking advantage of vendor discounts that benefit the state.





## Commission Response

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*The agency agrees with this finding. In evaluating payment scheduling, management will remind all payment staff that the agency must seek earlier payment distributions than the payment due date whenever taking a discount would be beneficial to the state.*

*Agency policy currently directs staff to the Comptroller eXpendit site for payment scheduling and to the Comptroller Discount Cost Effectiveness Calculator.*

## Procurement Process Not Followed/Term Contracts Not Used

Auditors identified two instances in the payment card sample where the Commission did not use the Comptroller's SPD term contracts offering the same or similar items as those purchased. According to the Commission, this was due to oversight. The [State of Texas Procurement and Contract Management Guide](#) – Procurement Methods – Term Contracts requires agencies to use the established term contracts unless the contracts fail to meet the agency's needs. In such a case, the agency must justify its decision in the supporting documentation for the payment card.

In addition, auditors identified four instances where the Commission could not provide supporting documentation and/or a justification for why the procurement process was not followed at the time the payment card was used.

According to [Texas Government Code, 2155.132\(f\)\(1\)](#), goods purchased under delegated purchase authority may not include an item for which a contract has been awarded under the term contract purchase procedure, unless the quantity purchased is less than the minimum quantity specified in the contract.

## Recommendation/Requirement

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The Commission must use the term contracts established by the Comptroller's office unless the contracts fail to meet its needs. If the term contract fails to meet the Commission's needs, the Commission must document the justification at the time of purchase and must maintain it as supporting documentation.

## Commission Response

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*The agency agrees with this finding. The AP Policy and Procedures Manual will be updated to include the process for identifying when a justification is required and the requirement for maintaining proper supporting documentation.*

## Incorrect Document Type/Incorrect Purchase Category Code

Auditors identified 11 payment card transactions that were processed using document type 9; however, the supporting documentation did not contain legal citations for auditors to verify whether the purchases were exempt.



Document type 9 purchases refer to purchases of certain goods and services that are not within SPD's purchasing authority, are exempt from competitive bidding requirements, or are required by statute to be procured through a specific purchasing method. Document type 9 purchases should have a blank or purchase category code (PCC) "0" field depending on whether the entry is to USAS or the Centralized Accounting and Payroll/Personnel System (CAPPS).

Auditors also identified an additional 18 payment card transactions processed using document type 9. These purchases are not exempt by the GAA, [Texas Government Code, Section 2155.144](#) or other statutes, so they must be competitively procured and agencies must process the transactions using document type 2. The payment card transactions should reference PCC "H." According to the Commission, the error was due to oversight. Improper use of document types can result in inaccurate expenditure reporting for public information requests. Erroneous coding can also affect the audit function in USAS.

For guidance using PCC and document types, see the [State of Texas Procurement and Contract Management Guide](#) — Appendix 29 — Purchase Category Code List.

## Recommendation/Requirement

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The Commission must update its policies and procedures and ensure that it processes payment card transactions with correct document types and PCCs.

## Commission Response

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*The agency agrees with this finding. HHSC Accounting will work with HHSC IT to develop coding within the HHSC CAPPS financial system for the modification of the default purchasing commodity code (PCC) on procurement card payments to distinguish between purchase vouchers that are subject to SPD procurement rules (type 2) and those that are exempt (type 9).*

*HHSC Accounting will work with PCS to revise agency policy and procedures to ensure that procurement card transactions follow SPD and Comptroller policies on document types and PCCs.*

## Incorrect Billing Account Number

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



During the review of this report, auditors identified 175 travel and procurement card documents totaling \$1,953,410.76 that were processed incorrectly to the state's payment card vendor. The Commission failed to provide the correct billing account number as prescribed by [FPP A.043](#) and [FPP E.023](#). As a result, the vendor might not be able to post payments to the Commission's payment and travel card accounts. The Commission stated that this was due to oversight.

## Recommendation/Requirement

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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, auditors recommend the Commission continue to review payment card statements to ensure payments are posted correctly.

## Commission Response

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*The agency agrees with this finding. The error identified occurred in September and October of 2017. Upon discovery, HHSC immediately reviewed the reconciliation procedures with accounting staff to ensure correct templates and procedures were followed to ensure payments are posted correctly. Managers have been trained on the review and approval processes to ensure compliance with agency policy.*

## Internal Policy Not Followed

The audit revealed seven payment card transactions where the Commission did not follow its internal policies and procedures for using the payment card. The payment card policy states that the payment cardholder manager or manager designee should provide pre-approval to cardholders under their supervision before each use of the payment card. The manager or designee should show proof of pre-approval by signing the cardholder's transaction log or emailing pre-approval as an attachment to the monthly reconciliation report.

Auditors also identified one payment card transaction where the Commission was missing a cardholder's transaction log. Under the payment card policy, a transaction log is used to reconcile individual billing statements and vendor invoices by comparing the entries on the transaction log and invoice to the transactions shown on the statement to ensure the cardholder made all the transactions. The cardholder and manager or designee should sign and date the individual statement and transaction log after verifying the transaction is completed. The individual statement, transaction log and all supporting documentation required should be submitted to the accounting office no later than the 20th of the month. According to the Commission, the omission was due to oversight and more training will be provided to the cardholders.





## Recommendation/Requirement

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The Commission must ensure the payment card policy and procedures are followed. All cardholders must provide evidence of pre-approval and the required supporting documentation including the transaction log in order to support the transaction.

## Commission Response

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*HHSC PCS has the Health and Human Services Procurement Card Policy in place for program staff use. When requesting a procurement card, an initial card holder training is required prior to receiving the card. Thereafter the training and HHSC Procard policy review is required on an annual basis. It is the responsibility of the procurement card holder and their procurement card coordinator (PCC) to ensure all rules and policies are adhered to in order to properly make purchases with the payment card. The PCC and the procurement card administrator work together to ensure the procurement card holders have taken the training.*

## Refund of Revenue Transactions

Auditors developed a sample of 10 refund transactions totaling \$202,460.22 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 in these transactions.

## Travel Transactions

Auditors developed a sample of 30 travel transactions totaling \$12,559.14 to ensure the Commission complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed the following exceptions in these transactions.

### Travel Advance Account Not Reconciled in a Timely Manner

Auditors found the travel advance account was not being reconciled in a timely manner. Monitoring the travel advance fund is necessary to prevent inconsistencies in how the account is handled. Account reconciliation is particularly useful for explaining any differences in account balances; some differences may be acceptable because of the timing of payments and deposits. According to the Commission, the reconciliation is usually completed on a monthly basis but due to an increase in workload, the reconciliation was not completed for four consecutive months.

Auditors also found irrecoverable balances totaling \$20,017.95. According to the Commission, this discrepancy was due to unsettled travel advances from former employees. The Commission stated that it is notifying the SAO about the loss and



its circumstances in order to obtain the required certification from the SAO. See [Travel Advance Account and Petty Cash Account \(APS 010\) \(FPP A.044\)](#) for the Comptroller's office requirements related to reimbursement of lost, stolen or missing travel advance funds.

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## Recommendation/Requirement

Each state agency that establishes a travel advance account or a petty cash account must adhere to internal agency guidelines and procedures for state officers and employees. The Commission must ensure that it reconciles the travel advance account each month so outstanding travel advances can be settled in a timely manner.

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## Commission Response

*The agency agrees with this finding. In October 2019 the agency transferred the reconciliation of the travel advance account to the Travel Advance Section. The travel advance account is now reconciled monthly in accordance with agency policy and procedures.*

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## Lack of Conservation of State Funds

Auditors identified one travel voucher outside of the sample for \$134.19 where the Commission reimbursed a traveler for mileage on a personal vehicle. However, based on the applicable car rental rates, taxes, cost of gas and the standard mileage rates in effect at the time of travel, it would have been more cost effective for the state if the traveler had used a rental vehicle instead of a personal vehicle.

Per the Commission's travel guidelines, personnel should ensure each travel arrangement is the most cost effective, considering all relevant circumstances. However, the traveler did not complete a cost comparison of mileage versus a rental vehicle.

[Texas Government Code, Section 660.007\(a\)](#) requires state agencies to minimize the amount of travel expenses they pay or reimburse. Agencies must ensure all travel reimbursements are examined before payment to ensure compliance with all applicable regulations and limitations. See [Texttravel – General – Responsibilities](#).

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## Recommendation/Requirement

The Commission should update its policies and procedures and implement a cost analysis policy to ensure it uses the most cost-effective method of travel. Each traveler's request should be reviewed before management approval.

In addition, the Commission should provide training to applicable personnel to ensure they use the most cost-effective travel arrangements.



## Commission Response

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*The agency agrees with this finding. The HHSC Travel Policy has been updated and is under review by agency management. The policy has been revised to require agency travelers to utilize the Trip Optimizer to ensure the use of the most cost-effective method of travel. The policy states that Trip Optimizers are required when claiming personal mileage and that HHSC will only reimburse mileage at the lower cost. HHSC has added Trip Optimizer to the employee travel training presentations.*

## Airfare Not Charged to State Contract Travel Card

Auditors identified one travel transaction for \$721.36 where an employee's airfare was paid with a personal credit card instead of a state-issued travel credit card. The mandatory form of payment for all airline fares is the state-issued corporate travel charge card. The Commission explained that the traveler made the airline reservation and charged the airfare to a personal credit card.

State travel card procedures state that contract travel services for airfare must be charged to state travel credit cards. See [34 Texas Administrative Code Section 20.413\(a\)](#).

## Recommendation/Requirement

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The Commission must update its policies and procedures to ensure all future airfare is charged to the state-issued travel credit card.

## Commission Response

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*The agency agrees with this finding. The HHSC Travel Policy has been updated and is under review by agency management. The policy specifies that the mandatory form of payment for all airline fares is the state issued corporate travel charge card account (IBA) or through the state contracted travel agency, and that personal credit cards cannot be used to purchase airfare.*

## Incorrect Reimbursement Amount

One travel reimbursement in the sample exceeded the General Services Administration (GSA) lodging rate by \$14 per night, resulting in excess expenditure of \$97.14 for the trip (including hotel taxes). The Commission did not identify the overpayment when reviewing the travel voucher before reimbursing the traveler.

Agencies must examine all travel reimbursements before payment to ensure compliance with all applicable regulations and limitations. See [Texttravel – General – Responsibilities – Agency Responsibilities](#). The employee may only be reimbursed actual lodging and meal expenses that do not exceed the maximum established rates. Agencies must use the federal rates provided by the GSA for both in- and out-of-state travel in the contiguous United States. See [GAA, Article IX, Section 5.05\(a\)](#).





## Recommendation/Requirement

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The Commission should train its employees to verify that all information and totals submitted for reimbursement follow state travel rules and are within established rates.

The Commission must obtain reimbursement of the overpayment from the traveler unless it determines it is not cost effective to do so.

## Commission Response

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*The agency agrees with this finding. Accounting management has reviewed the travel policy with all travel auditors.*

*The HHSC Travel Policy has been updated and is under review by agency management. The agency's revised travel policy states that a traveler should reimburse the agency for any overpayment of travel expenses whether the error is the fault of the agency or the authorized traveler, and the traveler may be placed on Comptroller warrant hold if the overpayment return is not made in a timely manner.*

## Fixed Assets

Auditors developed a representative sample of six transactions to test for accurate reporting and 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

### Incomplete Direct Deposit Authorization Forms

Auditors reviewed the Commission's procedures to comply with the federal mandate to properly identify and handle payments involving international fund transfers.

Auditors selected 10 direct deposit authorization forms for review. Two of the forms were not properly completed. Without a properly completed form on file, the Commission was unable to determine whether state funds were forwarded to a financial institution outside the United States. The Commission stated that this was an oversight. As a result of the audit, the Commission has been more diligent in ensuring that this section of the direct deposit form is completed.

The [Office of Foreign Assets Control](#) requires that 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 when processing all direct deposit payments.
- When possible, ensure direct deposit payments issued to accounts at U.S. financial institutions are not ultimately being transferred to financial institutions outside of the United States.

International automated clearing house transactions (IATs) are payments destined for a financial institution outside of 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 the United States, the agency may not set up that payee for direct deposit.

## Recommendation/Requirement

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The Commission must ensure all payees requesting direct deposit payments submit a completed, signed direct deposit authorization form with the international payment verification question answered.

## Commission Response

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*Accounting management has reviewed the direct deposit authorization process with staff and is revising the direct deposit form to improve user completeness and audit for compliance.*

## Failure To Follow Settlement and Judgment Process

Auditors identified two transactions totaling \$30,593.13 where the Commission processed a settlement and a pre-litigation settlement payment to employees that did not follow the settlement and judgement process required by the [Settlement and Judgment Processing Guidelines \(FPP E.041\)](#). The Commission did not obtain pre-approval from the Comptroller's office before making the settlement payments and used an incorrect comptroller object for these transactions. The Commission stated that the Comptroller's office provided guidance, but due to employee turnover, the transactions were processed incorrectly.

According to [FPP E.041](#) and the GAA, Article IX, Section 16.04, the paying agency is required to submit a copy of the payment voucher and settlement documentation to the Comptroller's office before processing the settlement payment. The Comptroller's office reviews the submitted documentation and, if approved, submits approval of the settlement payment in USAS. In addition, agencies are required to use comptroller object 7221 in USAS for pre-litigation claim payments and 7226 for settlements and judgments for claimant/plaintiff.

During the audit, the Commission processed an expenditure transaction voucher (ETV) to correct the comptroller objects in USAS. The Commission submitted the required documents listed in the [FPP E.041](#) and a copy of the ETV documents to the Comptroller's office.



## Recommendation/Requirement

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Auditors recommend the Commission enhance its process to ensure settlement and judgement payments are processed in accordance with [FPP E.041](#) and the GAA, Article IX, Section 16.04.

## Commission Response

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*The agency agrees with this finding. The Accounting Policies and Procedures Manual will be updated to ensure the settlement and judgments are processed in accordance with FPP E.041 and the GAA, Article IX, Section 16.04.*

*PTLL sought clarification of claims being handled on settlement agreements to identify which portion is wage related, attorney fees, damages, etc., to ensure correct object codes are used going forward.*

## Security

The audit included a security review to identify any of the Commission's employees with security in 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 observed 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 Commission's internal control structure was limited to obtaining reports identifying current users' access. The audit tests conducted revealed the following exceptions.

## Control Weakness Over Expenditure Processing

As part of the planning process for the post-payment audit, auditors reviewed certain limitations that the Commission placed on its accounting staff's ability to process expenditures. Auditors reviewed the Commission's security in USAS, the Standardized Payroll/Personnel Reporting System (SPRS), Texas Identification Number System (TINS) and voucher signature cards that were in effect on Aug. 15, 2019.

The Commission had three employees with multiple security capabilities. The employees had the security access to:

- Release/approve payment in USAS and create/edit vendor direct deposit information in TINS.
- Edit/update vendor or employee profiles in TINS and approve paper vouchers (by being on the agency signature card).





- Approve paper vouchers for expedite and change the warrant hold status on vendors in TINS.

During the audit, the Commission corrected the three employees' multiple security capabilities. Auditors also ran a report to determine whether any of the Commission's payment documents processed through USAS during the audit period because of the action of only one person. No issues were identified.

## Recommendation/Requirement

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The Commission should review the controls over expenditure processing and segregate each task to the maximum extent possible to ensure no individual is able to process payments without oversight.

Auditors strongly recommend the Commission implement the following:

- Limit the access of users who can enter/change vouchers or release/approve batches in USAS to view-only access in TINS (PTINS02). An employee must not be able to approve a payment and create or change vendor direct deposit information.
- Limit the access of users who can approve paper vouchers (by being on the signature card) to view-only access in TINS (PTINS02). An employee must not be able to change a vendor/employee direct deposit information *and* approve a payment.
- Ensure employees who can approve an expedited payment (by being on the signature card) do not have the ability to change the warrant hold status of a vendor in TINS.

## Commission Response

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*The agency agrees with this finding. HHSC has modified employee legacy agency security access for those individuals identified as a result of this audit. HHSC managers will review security access semi-annually for their staff based on current policies. HHSC will provide guidance to managers to include information on the three issues identified in the recommendation.*



# 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 samples of the Texas Health and Human Services Commission (Commission) payroll, purchase/procurement, contracting, refund of revenue, travel, payment card and controls over expenditure activities that were processed through USAS, SPRS and CAPPS 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 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 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

*Eunice Miranda, CTCD, Lead Auditor*

*Leticia Dominguez, CTCD*

*Jack Lee, CPA*

*Max Viescas, CPA*

*Alberto Lanas, MBA, CTPM, CTCD*





## 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.