



An Audit of the Texas House of Representatives

Audit Report # 102-20-01
July 29, 2021

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Executive Summary

Purpose and Scope

The objectives of the Texas House of Representatives (House) 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 Sept. 1, 2018, through Aug. 31, 2019.

Background

The Texas House of Representatives (House) is composed of 150 members, each elected for a two-year term. The Texas Legislature meets in regular session for about five months every other year. Regular sessions begin at noon on the second Tuesday in January of odd numbered years and can last no more than 140 days, ending during the last week of May or the first week of June.

Texas House of Representatives
website

<https://house.texas.gov>

Audit Results

The House generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with payroll, travel or property management records. However, the House should consider making improvements to its purchase, contract and internal control processes.

An overview of audit results is presented in the following table.

Table Summary

Area	Audit Question	Results	Rating
Payroll Transactions	Did payroll transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Purchase/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"> • Purchase order created after invoice. • Missing vendor compliance verifications. 	Compliant, Findings Issued
Travel Transactions	Did travel transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Fixed Assets	Are tested assets in their intended locations and properly reported in the SPA system?	No issues	Fully Compliant
<u>Internal Control Structure</u>	Are incompatible duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	Five employees with overlapping security access for incompatible duties	Compliant, Findings Issued
Security	Are House employees who are no longer employed or whose security was revoked properly communicated to the Comptroller's office?	No issues	Fully Compliant
<u>Targeted Analysis</u>	Did the House comply with the federal mandate to handle payments involving the international movement of funds?	Missing Direct Deposit Authorization forms	Compliant, Findings Issued



Key Recommendations

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

- The House must prepare documentation of an agreement at the time the goods or services are ordered from a vendor. The House may not pay any amount in excess of the amount agreed on, unless the agreement is amended due to the vendor providing a new benefit or consideration.
- The House must conduct all vendor compliance verification (VCV) checks before any purchase, contract award, extension or renewal.
- The House must implement additional controls over expenditure processing that segregate each accounting task to the greatest extent possible.
- The House must retain all payees' Direct Deposit Authorization forms for the appropriate time period.



Detailed Findings

Payroll Transactions

Auditors developed a representative sample totaling \$732,371.64 from a group of 30 employees with 163 payroll transactions to ensure the House complied with the GAA, [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Auditors also reviewed a limited sample of 17 voluntary contribution transactions. Audit tests revealed no exceptions in this group of transactions.

Purchase/Procurement and Contract Transactions

Auditors developed a sample of 25 purchase/procurement transactions totaling \$924,306.91, as well as four transactions totaling \$392,046.95 from a vendor or contract, to ensure the House complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed the following exceptions in the purchase/procurement and contract transactions.

Contract	Amount	Type of Service	Procurement Cycle				
			Planning	Procurement Method Determination	Vendor Selection	Contract Formation/Award	Contract Management
Contract A	\$544,155.95	Purchase/installation of video equipment	No exceptions	No exceptions	Missing VCVs	No exceptions	No exceptions

Purchase Order (PO) Created After Invoice

For one \$15,665.00 purchase transaction, the House created the PO after receiving the invoice. Without a PO issued to the vendor at the time goods are ordered, it is difficult for the House to ensure that it is not overcharged or billed for goods or services that were not agreed on. House staff could not provide source documentation listing the cost of the repairs before receiving the invoice.

According to [34 Texas Administrative Code Section 5.51\(c\)\(1\)\(D\)](#), each state agency and its officers 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.



Recommendation/Requirement

The House must ensure staff prepares documentation of an agreement at the time the goods or services are ordered from a vendor. Once the House has a final approved agreement with a vendor, the House may not pay any more than the agreed-upon amount, unless the agreement is amended due to the vendor providing a new benefit or consideration.

House Response

Policies and procedures already exist to prevent this from happening. We have an internal website through which these requests are made and approved. Department managers are responsible for ensuring commitments to acquire goods and/or services have not been made prior to these requests being approved by the Executive Director and properly processed by the Purchasing department. In this particular case, the manager of the department that made the commitment did not follow the proper procedures, which resulted in a commitment being made before the purchase order was created. That manager has been reminded of the proper procedure and has been made aware of the consequences if those procedures are not strictly adhered to in the future.

Missing Vendor Compliance Verifications (VCVs)

The House was unable to provide documentation that it performed the VCVs for the contract reviewed. The House must provide a screen print to show it performed each verification. According to the House, it was unable to provide the VCV documents.

System for Award Management Check

Auditors noted that the House did not search the System for Award Management (SAM) database before awarding the contract. The House must check the SAM database to verify that the vendor is not excluded from contract participation at the federal level. A contract cannot be awarded to a vendor named on the U.S. Treasury Department, Office of Foreign Assets Control's master list of specially designated nationals and blocked persons (with limited exceptions set forth in [Presidential Executive Order 13224](#)).

Warrant Hold Check

Auditors noted that the House did not verify the vendor's warrant hold status before the date of contract execution. State agencies are required to check a vendor's warrant hold status if the transaction includes a written contract. Per [Texas Government Code, Section 2252.903\(a\)](#), each state agency must determine whether a payment law prohibits the Comptroller from issuing a warrant or initiating an electronic funds transfer to a person before the agency awards a written contract to that person. The agency must make this determination no earlier than the seventh day before and no later than the date of contract execution.



Iran, Sudan and Foreign Terrorist Organization List Check

House staff could not document that it performed the Iran, Sudan, and foreign terrorist check before awarding the contract. Government entities may not contract with a company doing business with Iran, Sudan or a foreign terrorist organization, per [Texas Government Code, Sections 2252.001\(2\), 2252.151\(4\) and 2252.152](#). Before award, the House must check the divestment lists to confirm the potential awardee is not in violation of this requirement, per [Texas Government Code, Section 2252.153](#). The divestment lists are maintained by the Texas Safekeeping Trust Company and posted to the Comptroller's [Divestment Statute Lists](#). If the business is in violation, the House may not award the contract to that vendor.

Boycott Israel Check

House staff could not document that it performed the boycott Israel check before awarding the contract. Government entities may not contract with a company for goods or services unless the contract contains a written verification from the company that it does not boycott Israel and will not boycott Israel during the term of the contract. See [Texas Government Code, Chapter 808](#). Before award, the House must check the divestment lists to determine if the potential awardee is in violation of this requirement, per [Texas Government Code, Section 808.051](#). The divestment list is posted to the Comptroller's [Divestment Statute Lists](#). If the potential awardee is on the list, the House may not award the contract to that vendor.

Recommendation/Requirement

The House must conduct all VCV checks before any purchase, contract award, extension or renewal. The House must retain results from each specified website and include them as evidence in the procurement file.

House Response

The Purchasing manager, at the time of this finding, is no longer an employee of the House. The new Purchasing manager has been made aware of these requirements and has been given the necessary websites to make sure the Vendor Compliance Verifications are completed prior to any purchases, contract awards, extensions or renewals. A follow up meeting with her and the Executive Director will be scheduled in the near future to ensure these checks are being properly done.

Travel Transactions

Auditors developed a representative sample of 17 travel transactions totaling \$8,912.31 to ensure the House complied with the GAA, [Textravel \(FPP G.005\)](#), pertinent statutes and Comptroller requirements. Audit tests revealed no exceptions in these transactions.



Fixed Assets

Auditors developed a representative sample of 11 transactions 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.

Internal Control Structure

Auditors reviewed House employees' access to various Comptroller systems to determine if any employees had multiple security capabilities allowing them to process payments through the systems without oversight by any other employee. Audit tests 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 House placed on its staff's ability to process expenditures. Auditors reviewed the House's security in the Uniform Statewide Accounting System (USAS), Uniform Statewide Payroll/Personnel System (USPS), Standardized Payroll/Personnel Reporting System (SPRS), Texas Identification Number System (TINS) and voucher signature cards in effect on Feb. 5, 2020. Auditors did not review or test any internal or compensating controls that the House might have related to USAS, USPS, SPRS or TINS security or internal transaction approvals.

The House had five employees with multiple security capabilities. The employees had the security access to:

- Enter/edit payment vouchers and payrolls in USAS and release/approve payment vouchers and payrolls in USAS.
- Enter/edit and release/approve payment vouchers in USAS and create/edit a vendor profile, edit vendor direct deposit information and/or change the warrant hold status of a vendor in TINS.
- Approve paper vouchers for expedite (by being on the agency's signature card) and pick up warrants (by being on the agency's Authorization for Warrant Pickup list).
- Approve paper vouchers for expedite (by being on the agency's signature card) and edit a vendor or employee profile, direct deposit information and/or change the warrant hold status of a vendor in TINS.

Auditors ran reports to determine if any of the House's payment documents were processed through the systems during the audit period due to the actions of one individual. No issues were identified.



Recommendation/Requirement

To reduce risks to state funds, the House should continue to review the controls over expenditure processing and segregate each accounting task to the maximum extent possible. Ideally, no individual should be able to process transactions without oversight.

The House must implement the following recommendations:

- Limit user access to either enter/change vouchers or release/approve batches. If the House cannot separate the functions and/or does not have other internal mitigating controls in place, the House must elect to have the document tracking control edit on the Agency Profile (DØ2) in USAS set to either:
 - Prevent a user from releasing a batch the same user entered or altered for the agency.
 - or –
 - Warn the user when the same user attempts to release his or her own entries or changes. See [*USAS Accounting and Payment Control \(FPP B.005\)*](#).
- Review the preventive and detective controls over expenditure processing discussed in [*USAS Accounting and Payment Control \(FPP B.005\)*](#).
- Work with Statewide Fiscal Systems security staff at the Comptroller's office to set up user profiles that separate the entry and approval of payroll transactions.
- Ensure employees who can enter, change or delete vouchers in the House's internal system are not able to approve or release payments in the internal system or in USAS. A supervisor or another employee must approve the vouchers.
- Limit the access of users who can enter/edit and release/approve payment vouchers in USAS to view-only in TINS (PTINS02). An employee must not be able to create or approve a payment and create or change a vendor profile, edit direct deposit information or change the warrant hold status of a vendor in TINS.
- Limit user access by removing the user from the House's signature card or by removing the user from the House's Authorization for Warrant Pickup list.
- Limit the access of users who can process or approve an expedited paper voucher (by being on the signature card) to view-only access in TINS (PTINS02). An employee must not be able to create/approve a payment and create/change a vendor profile, edit direct deposit information, and/or change the warrant hold status of a vendor in TINS.



House Response

We feel that the current internal controls we have in place have been effective in preventing the processing of fraudulent expenditures. The Risky Document Report (DAFR9840) is requested on a monthly basis. This report is provided to the Executive Director for review with the Accounting manager. If an expenditure document was entered and released, in USAS, by the same user, an explanation is provided as to why this occurred. It was decided that implementing a preventative control on all transactions in USAS, as has been suggested, could prevent the timely processing of critical expenditure documents. Employees that have the ability to both enter and release an expenditure document have been instructed to do so only when absolutely necessary. With the review of the Risky Document Report and the limited number of employees that have the security level to enter and release an expenditure document, we feel the risk of an adverse outcome has been reduced to an acceptable level.

Security

The audit included a security review to identify House 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 met so that security can be revoked in a timely manner. Audit tests revealed no security exceptions.

Targeted Analysis

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

Missing Direct Deposit Authorization Forms

Auditors reviewed House procedures for complying with the federal mandate to properly identify and handle payments involving the international transfer of funds.

The [Office of Foreign Assets Control](#) requires all direct deposit payments transmitted outside the United States to 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 of the United States.

Of the 10 employees selected for review, four had missing direct deposit forms. The House stated it does not maintain the forms for terminated employees, as they would fall outside the agency's record retention period. The House uses its own retention schedule as well as the [Texas State Records Retention Schedule](#) (RRS), adopted by



the Texas State Library and Archives Commission, to determine the retention period for direct deposit forms. The House schedule requires the forms to be retained until superseded, and notes that employee records are superseded on the termination date or the last date the record is needed with reference to the employee, as applicable. The House keeps direct deposit forms for up to 60 days beyond the employee's termination date to ensure all final payments have been made.

However, per the RRS, any federal or state legislation mandating a longer retention period overrides the schedule. Because the House uses direct deposit forms, it must follow the National Automated Clearing House Association (NACHA) rule, which states an originator must retain the original or a reproducible copy of the receiver's authorization for two years from the termination or revocation of the authorization and must be able to provide the originating depository financial institution (ODFI) with an accurate copy within the time period required by the ODFI.

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 House is unable to follow the direct deposit requirements.

Recommendation/Requirement

To comply with Office of Foreign Assets Control requirements, the House must ensure it retains the Direct Deposit Authorization forms for two years after the termination or revocation of the authorization.

House Response

Our retention period for Direct Deposit Forms has been updated to two years after the termination or revocation of the authorization.



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 House of Representatives (House) payroll, purchase and travel transactions that were processed through USAS and USPS from Sept. 1, 2017, through Aug. 31, 2018, to determine compliance with applicable state laws.

The House receives appendices with the full report, including a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

The audit provides a reasonable basis for the findings set forth in this report. The House should implement the recommendations listed in the Detailed Findings section of this report. It is the House's responsibility to seek refunds for all overpayments, unless the House 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 House's documents comply in the future. The House 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.