



An Audit of the Texas Department of Transportation

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Executive Summary

Purpose and Scope

The objectives of this audit were to determine whether the Texas Department of Transportation (Department):

- Procured contracts according to applicable state laws and Comptroller requirements.
- Processed payments according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Maintained documentation to support those payments.
- Properly recorded capital and high-risk assets.
- Implemented appropriate security over payments.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from Dec. 1, 2018, through Nov. 30, 2019.

Background

The Texas Department of Transportation's mission statement is "Connecting you with Texas." The Department's goals and objectives are to deliver the right projects, focus on the customer, foster stewardship, optimize system performance, preserve assets, promote safety and value employees. The Department's organizational structure includes the following primary program divisions: Aviation, Bridge, Construction, Maintenance, Public Transportation, Rail, Toll Operations and Traffic Safety.

Texas Department of
Transportation website
<https://www.txdot.gov/>


Audit Results

The Department largely complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no reportable issues with property management, grants or refund of revenue transactions. However, the Department should consider making improvements to its payroll, contract and procurement, payment card, travel, internal controls and security processes.

Auditors reissued one finding from the last audit conducted at the Department related to longevity payments. Auditors originally issued these finding in August 2017. An overview of audit results is presented in the following table.



Table Summary

Area	Audit Question	Results	Rating
<u>Payroll Transactions, Overpayment Report</u>	Did payroll transactions comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> • Incorrect use of administrative leave with pay.  Incorrect state effective service date and incorrect longevity payments. • Missing approvals and documentation for salary actions. • Incorrect salary payments. 	Compliant, Findings Issued
<u>Purchase, Contracting and Procurement Process</u>	Did purchase transactions, contract payments and procurement processes comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> • Inadequate contracting process/ procurement process not performed. • Failure to report contracts to the Legislative Budget Board. • Failure to report to the Vendor Performance Tracking System. • Missing vendor compliance verifications. • Lack of documentation supporting dates used for prompt payment and payment scheduling. 	Compliant, Findings Issued
<u>Payment Card Transactions</u>	Did payment card transactions comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> • Incorrect purchase category code and document type. • Improper use of the generic Texas identification number. 	Compliant, Findings Issued
<u>Travel and Travel Card Transactions</u>	Did travel and travel card transactions comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> • Missing documentation when choosing a travel method that is not the lowest cost. 	Compliant, Findings Issued
Fixed Assets	Were tested assets in their intended locations and properly reported in the State Property Accounting System?	No issues	Fully Compliant



Repeat Finding



Area	Audit Question	Results	Rating
Grant Transactions	Did grant payments comply with state laws and regulations pertaining to grants/loans and pertinent statutes?	No issues	Fully Compliant
Refund of Revenue Transactions	Did refund of revenue transactions comply with all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Security</u>	Are Department employees who are no longer employed or whose security was revoked properly communicated to the Comptroller's office?	<ul style="list-style-type: none"> • Failure to notify Comptroller to remove employee from signature card. • Confidential Treatment of Information Acknowledgment form missing. 	Control Weakness Issues Exist
<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?	Control weakness over expenditure processing	Control Weakness Issues Exist



Key Recommendations

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

- The Department must update its policies and procedures to ensure its administrative leave award process is accurate and complies with [Texas Government Code, Section 661.911 – Administrative Leave With Pay](#).
- The Department must continue to review each employee's job application and the internal prior state service form for prior state service, and must confirm prior service is properly recorded to ensure longevity pay increases and leave accruals occur at the correct times. See [34 Texas Administrative Code Section 5.40\(c\)](#).
- The Department must review its salary growth plan policies and procedures to ensure that the plan is properly documented and approvals are maintained. The Department should improve its payroll processes to prevent incorrect salary payments.



- The Department must ensure its procurement planning process meets applicable requirements.
- The Department must report all contracts to the Legislative Budget Board as applicable.
- The Department must report vendor performance information for purchases over \$25,000 to the Vendor Performance Tracking System (VPTS).
- The Department must ensure staff performs all applicable vendor compliance verifications, documents the verifications for every procurement, and retains proof as part of the procurement files.
- The Department must ensure staff retains electronic vendor invoices in accordance with Comptroller's office guidance and keeps them on file as documentation for prompt payment and payment scheduling purposes.
- The Department must ensure staff uses correct document types and purchase category codes (PCCs) when coding payment card transactions in the Centralized Accounting and Payroll/Personnel System (CAPPS).
- The Department must ensure staff uses a vendor-specific Texas identification number (TIN) when coding payment transactions to the charge card vendor, whenever possible.
- The Department must consistently document exceptions that travelers claim when choosing methods of travel that are not the lowest cost.
- The Department must ensure compliance with the terminated employee security revocation requirements.
- The Department must maintain Confidential Treatment of Information Acknowledgment (CTIA) forms in its files in accordance with the retention policy stated on the form and in [Access Requirements for Comptroller Systems \(FPP K.015\)](#).
- The Department must have controls over expenditure processing that segregate each accounting task to the greatest extent possible.



Detailed Findings

Payroll Transactions

Auditors developed a sample totaling \$1,092,299.80 from a group of 62 employees and 280 payroll transactions to ensure the Department complied with the GAA, [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Audit tests revealed multiple exceptions in this group of transactions. Auditors also reviewed a limited sample of 40 voluntary deduction and contribution transactions with no exceptions identified.

Incorrect Use of Administrative Leave With Pay

In a review of the Department's policies and procedures, auditors found the Department awarded administrative leave to employees who recruited or referred an outside applicant who was subsequently hired. The Department's policy states that "Employees who recruit or refer an external job applicant who is hired for a posted regular full-time position are eligible to be awarded paid leave for recognition."

However, [Texas Payroll/Personnel Resource - Non-Salary Payments - Recruitment and Retention Bonuses](#) notes that an agency can provide a financial incentive to attract, hire or retain eligible key classified staff whose skills are vital to achieving significant agency goals, but it does not provide for an agency to award administrative leave for a recruitment or referral.

The Department cited [Texas Government Code, Section 661.911 - Administrative Leave With Pay](#) to justify awarding this type of leave. The section states, "the administrative head of an agency may grant administrative leave without a deduction in salary to an employee as a reward for outstanding performance as documented by employee performance appraisals."

However, the form the Department used when awarding this leave, Form 2697 - Paid Leave for Recruitment Referrals, is not tied to a performance appraisal and only requires the approval and signature of human resources personnel. The Department used a different form to award administrative leave for outstanding performance, Form 1933 - Paid Leave Award, which is tied to a performance appraisal and requires the approval and signature of the supervisor and the district engineer/district director.

As per guidance from the State Auditor's Office (SAO), the agency with rule-making authority over [Texas Government Code, Section 661.911 - Administrative Leave With Pay](#), "Texas Government Code, Section 661.911, allows for an agency to award leave (not to exceed 32 hours in a fiscal year) to an employee as a reward for outstanding performance as documented by employee performance appraisals. If an agency ties



recruitment and referral efforts to an employee's performance, that would be at the agency's discretion. However, if an agency awards an employee leave for recruitment and referral efforts, regardless of that employee's performance as documented in that employee's performance appraisals, that would not be in compliance with [Texas Government Code, Section 661.911](#)."

Recommendation/Requirement

The Department must update its policies and procedures to ensure its administrative leave award process is accurate. In addition, the Department must monitor its leave accounting system to ensure compliance with [Texas Government Code, Section 661.911 – Administrative Leave With Pay](#).

Department Response

Paid leave for recruitment referrals will be documented in our performance appraisal system.

The following actions are already included in the agency's policies and procedures:

- *Outstanding performance leave for recruitment referrals will continue to be submitted to the Executive Director for approval.*
- *TxDOT's current leave policy identifies paid leave for recruitment referrals as outstanding performance leave.*

Incorrect State Effective Service Date and Incorrect Longevity Payments

Auditors identified three employees, two in the payroll sample and one on a payroll report outside the sample, with incorrect state effective service dates. The employees noted the prior state employment on their job applications and/or the Department's internal prior state service form but did not receive the state service credit. The incorrect dates resulted in underpayments of longevity pay.

Prior state service documentation is necessary to verify employees' effective state service dates and the accuracy of longevity payments. The Department's payroll policies and procedures include verifying prior state service when an employee lists it on the job application and/or the internal form.

The Department stated that the issues occurred due to clerical oversight. As a result of the audit, the Department verified the additional prior service, compensated the employees for the underpaid longevity pay, and corrected the leave accruals.

When an agency hires an employee, the agency must research whether the employee has previous state service. If prior service exists, the agency must confirm the amount of lifetime service credit and properly record it or risk underpaying longevity pay. See [Texas Payroll/Personnel Resource – Longevity Pay](#).



Recommendation/Requirement

The Department must review its controls and internal operating procedures to ensure prior state service records are accurate, and to detect and prevent incorrect compensation. The Department must continue to review each employee's job application and the internal prior state service forms to confirm they are properly recorded in the accounting and payroll systems so longevity pay increases and leave accruals occur at the correct times. See [34 Texas Administrative Code Section 5.40\(c\)](#).

Department Response

The department will continue to monitor the records closely when onboarding new employees. We will work to better educate employees and explain the importance of making TxDOT aware of all prior state service, if applicable.

Human Resources will continue to follow the current process of having all new hires complete a prior state service form and comparing it to the information they have provided on their application. In the event a discrepancy is discovered we will take appropriate action and correct the employee's prior state service in our system and coordinate payment owed to the employee with payroll.

Missing Consistent Documented Approvals for Salary Actions

Auditors identified 58 salary action transactions totaling \$249,042.18 that did not contain approvals and/or personnel action forms (PAFs). During the scope of the audit, the Department replaced the PAF process with a salary growth plan process.

According to the Department, the first step of the salary growth plan process is for the Finance division to define and enter salary allocation amounts for each district/division in PeopleSoft and alert each district/division to its salary allocation amount. Then the division director/district engineer or their designee determines the allocation for each manager, and the manager plans allocations using PeopleSoft. The division director/district engineer reviews the Salary Growth Plan Report, approves the distribution, and sends the approved plan to Human Resources. Human Resources reviews the plan, enters the salary actions, and notifies the director/district engineer when the actions have been entered. According to the Department, the submission of the Salary Growth Plan Report constitutes the approval of the director/district engineer.

The division director/district engineer approval documentation was not consistently maintained by the Department. According to Department personnel, some districts/divisions met to discuss and approve the Salary Growth Plan Report but did not maintain meeting minutes or other approval documentation. Other districts/divisions approved the Salary Growth Plan Report verbally but did not maintain a record of division director/district engineer approval.



Agencies are required to maintain consistent documentation to support the legality, propriety and fiscal responsibility of each payment made from agency funds. The Comptroller's office may require the documentation to be made available during a post-payment audit, pre-payment audit or at any other time. See [Texas Payroll/Personnel Resources – Required Documentation](#).

Recommendation/Requirement

The Department must ensure the salary growth plan is properly documented and salary action approvals are maintained.

Department Response

The Human Resources Division is currently reviewing the Department's policies and procedures to ensure proper documentation and salary action approvals are maintained in accordance with the Texas Comptroller of Public Account's Texas Payroll/Personnel Resources – Required Documentation Provisions.

Incorrect Salary Payments

Auditors also identified 12 employees with incorrect salary payments. One employee in the sample and 11 employees identified in a report outside the sample received salary overpayments totaling \$5,897.25. The overpayments occurred due to late notifications of employee terminations. See [Texas Payroll/Personnel Resource – Overpayments](#) and [34 Texas Administrative Code Section 5.40\(b\)](#).

In a report outside the sample, auditors also identified one employee who reimbursed the Department \$446.34 instead of \$381.25 for a salary overpayment, so the employee is owed \$65.09. See [34 Texas Administrative Code Section 5.40\(c\)](#).

In addition, auditors identified one incorrectly calculated lump-sum payment for a terminated employee's accrued vacation time, which resulted in a \$480.44 underpayment. According to the Department, this miscalculation was due to not including holidays in the calculation. The balance of the accrued vacation time must be completely allocated over the workdays following the effective separation date. Hours must be added for each state or national holiday in the allocation period. See [Texas Government Code, Section 661.064](#).

Recommendation/Requirement

The Department should improve its payroll processes to prevent incorrect salary payments and incorrect payments of accrued vacation time. The Department must pay the underpaid salary amounts to the employees, and must recoup the overpayments unless it is not cost effective to do so. If the Department determines it is not cost effective, it should consider [Reporting of State Debts and Hold Offset Procedures \(APS 028\) \(FPP E.037\)](#) policy guidelines for handling the debt to the state.



Department Response

Human Resources Response:

Department policy is to take action in the event of overpayment or underpayment of employees' accrued time. The Department will make every effort to correct these in a timely manner as soon as possible. Upon HR discovery of these discrepancies we coordinate corrective action with Payroll.

Finance Management Response:

Our current payroll processes to prevent overpayments from occurring with both active and termed employees include:

- Removal of employees from on-cycle process (new hires with partial month payments).*
- The canceling and reissue of employees with LWOP (leave without pay) recorded late in the month.*
- The canceling and reissue of terminated employees before the last off-cycle payroll.*
- Placement of employees on back time for consecutive months of overpayments.*
- Last minute callback attempts on direct deposits to employees with overpayments.*
- Weekly email reminders from our office along with reminders from administrators in the field are sent to employees and supervisors to enter and approve time.*

OnBase Document Management

OnBase will make it much easier to store all documents and retrieve information related to overpayments. We keep a detailed copy of all supporting documents related to termed employee overpayments (time sheets, calculations, invoices, and collection letters, and documentation regarding files sent to the OAG). This process is currently being used and has been in place for the past 6 months.

Tracking Reports

We have significantly improved how we track overpayments over the past two years. Queries and reports designed specifically to track potential overpayments and reconcile amounts overpaid are currently being designed and utilized. New hires in the payroll department are currently being trained using these methods.

Vacation Payments

Holiday calendars can be entered into PeopleSoft two years in advance rather than one year so we can ensure that holidays are included in the final calculations of deceased employee sick leave and vacation payments with large-balance payouts. Vacation and sick leave payments to deceased employee estates can be audited by Payroll personnel to ensure the calculation is posting correctly. The holiday calendar has been updated in PeopleSoft for the next two fiscal years.



Purchase/Procurement and Contract Transactions

Auditors developed a sample of 60 purchase transactions totaling \$68,053,784.69, as well as 11 transactions totaling \$17,723,378.89 from two vendor contracts, to ensure the Department complied with the GAA, [eXpendit \(FPP I.005\)](#) and pertinent statutes. Audit tests revealed multiple exceptions in this group of transactions.

The table below summarizes the two contracts that were reviewed.

Contract	Amount	Type of Service	Procurement Cycle				
			Planning	Procurement Method Determination	Vendor Selection	Contract Formation/Award	Contract Management
Contract A	\$144,207,910.65	Highway Improvement/Construction	No exceptions	No exceptions	No exceptions	<ul style="list-style-type: none">Failure to report contract to the LBB.Missing vendor compliance verification.	<ul style="list-style-type: none">Failure to report to VPTS.Prompt payment scheduling – lack of documentation supporting dates used for prompt payment scheduling.
Contract B	\$14,375,800.00	Outsourced Services	No exceptions	No exceptions	No exceptions	No exceptions	No exceptions

Inadequate Contracting Process – Procurement Process Not Performed

Auditors determined the Department’s contracting process for one of the purchase transaction contracts did not meet state contracting requirements. The Department failed to plan for and reissue a competitive solicitation for these services and instead extended the contract to a total term of nine years with material changes in amount. The purchase order (PO) for this transaction was a release against a blanket PO from a multi-tiered award. The blanket PO had not been reissued for competitive soliciting, but was instead extended over a six-year period after its initial three years for a total of nine years. The extensions and various change orders resulted in a material increase of the contract amount from the original \$5,112,487 to \$67,742,535.41.

According to the Department, the *State of Texas Procurement and Contract Management Guide* in effect at the time this contract was solicited recommended a maximum term of four years but acknowledged that business needs may dictate a different period. The Department determined a longer period was necessary in this case and this term was advertised in the solicitation and allowed for in the contract. The Department also stated that the blanket PO was last renewed in December 2015 before the requirement to reissue for competitive soliciting was included in the General Appropriations Act.



However, the Department did not provide auditors with documentation of the business justification for the longer period. Additionally, there was a discrepancy in terms. The contract terms in the solicitation allowed the PO to be renewed up to two additional like periods of time at the same terms and conditions if both parties agreed in writing before the PO expired. However, the blanket PO defined the term of service as 36 months with the option to renew for an additional 36 months, not two additional like periods.

Also, the *Procurement and Contract Management Guide* notes that if an agency needs a change in a contract, the change has to be within the scope of the solicitation specifications. A significant difference would be a material change in the scope of services and would not be allowed because it had not been subject to fair competition. Therefore, any contract amendments must be within the scope of the original contract and the competitive process underlying the original contract.

The contracting process used in this procurement resulted in potential lost opportunities to achieve best value through competitive resolicitation, and an appearance of unfairness to potential vendors.

Recommendation/Requirement

The Department must evaluate and improve its contracting and procurement process and its procurement planning process to ensure it meets applicable requirements. It is recommended that the maximum duration for a contract without reissuing a competitive solicitation be four to five years including any renewals or extension periods, unless individual business needs dictate a different period. The Department should consult with its legal counsel early in the planning process and thoroughly document its justification if it expects the contract to exceed this maximum duration. See Chapter 3, Preparing the Solicitation, Contract Term section, of the Statewide Procurement Division's (SPD's) previous *Procurement and Contract Management Guide*, version 1.16, effective September 2016.

Department Response

The Purchase Order Change Notice - Purchase Order Renewal SOP is being modified and the current Purchasing Manual addresses audit requirements.

A manual revision, "Manual Notice 2017-1," was completed Feb. 01, 2017, and clarified the 10% rule limiting increase amounts and signature authority tables. The current Purchasing Manual chapter 7, section 4 addresses amendments to contracts with an initial value exceeding \$10 million or 10 percent of the agency's appropriated funds. Furthermore, the Purchase Order Change Notice - Purchase Order Renewal SOP is being modified to ensure contract terms are for one year with a maximum of three like periods of time for renewals.



Any deviation in these terms requires justification from the customer, TxDOT's Procurement director's approval, and a cost benefit analysis prior to renewal if contract will exceed five fiscal years.

Note: The State of Texas Procurement and Contract Management Guide in effect at the time of the questioned contract solicitation acknowledged business needs may dictate different periods than the recommended maximum four-year term. The contract was for the maintenance and repair of ferry vessels and only two vendors responded to the RFP.

Failure to Report Contracts to the Legislative Budget Board

For 11 purchase transactions, the Department failed to report the contract to the Legislative Budget Board (LBB). The [GAA for the 2020-21 Biennium, Article IX, Section 7.04](#) required a state agency that receives an appropriation under the GAA to report any contract valued at \$50,000 or more to the LBB. Article IX, Section 7.12(d)(1) required agencies to submit copies of all contract documents, including the award, solicitation documents, renewals, amendments, addendums, extensions, attestation letters, appendices, attachments, requests for proposals, invitations to bid or comparable solicitations, and certain types of supporting records. Contracts initially reported to the LBB database do not have to be reposted on the agency's website, per [Texas Government Code, Section 2261.253\(g\)\(1\)](#).

The Department's operations and functions, including some types of procurements, are highly decentralized. The Department could not identify a cause for this issue.

Recommendation/Requirement

The Department must report all applicable contracts to the LBB in compliance with the [LBB Contract Reporting Guide](#). Additionally, the Department should ensure staff is trained on and understands the LBB reporting requirements.

Department Response

The Procurement Divisions uses an LBB tracking tool to identify contracts to be reported to LBB.

Each contract entry into the tool generates a confirmation email to the purchaser creating the entry and to the staff responsible for completing the subsequent entry into the LBB Contract Reporting Database.

Personnel responsible for completing the entry into the LBB database have 2 business days to complete the entry into the LBB Contract Reporting database and mark the entry as "complete" in the LBB tracking tool.

The Purchasing Manual will be revised revised to clarify LBB posting requirements.



Failure to Report to the Vendor Performance Tracking System (VPTS)

For 11 purchase/procurement transactions, the Department failed to report purchases and contracts over \$25,000 to the VPTS. SPD administers VPTS for use by all ordering agencies per [Texas Administrative Code, Section 20.115](#). VPTS relies on agency participation to gather information on vendor performance. All agencies must report vendor performance on purchases over \$25,000 from contracts administered by the SPD or any other purchase over \$25,000 made through delegated authority granted by SPD. Ordering entities are also encouraged to report vendor performance for purchases under \$25,000. Agencies must also maintain supporting documentation. See [Texas Government Code, Section 2155.089](#).

The Department's operations and functions, including some types of procurements, are highly decentralized. The Department could not identify a cause for this issue.

Recommendation/Requirement

The Department should ensure staff is trained on and understands the vendor performance reporting requirements. Additionally, the Department must report purchases over \$25,000 to the VPTS to identify suppliers demonstrating exceptional performance, aid purchasers in making a best-value determination based on vendor past performance, and protect the state from vendors with unethical business practices. Reporting also identifies vendors with repeated delivery and performance issues, provides performance scores in four measurable categories for Centralized Master Bidders List (CMBL) vendors, and tracks vendor performance for delegated and exempt purchases.

Department Response

The Procurement Division addresses Vendor Performance Tracking System reporting requirements in the Purchasing Manual Chapter 7, Section 5, with a Standard Operating Procedure for Purchase Order Change Notices and Purchase Order Renewals, and a Customer SOP on Vendor Performance Reporting.

Missing Vendor Compliance Verifications

The Department was unable to provide a complete checklist of vendor compliance verification (VCV) documents for 40 purchase transactions and one contract.

The Department's operations and functions, including some types of procurements, are highly decentralized. The Department could not identify a cause for this issue.



Warrant/Payment Hold Check

The Department was unable to provide a warrant/payment hold check for 38 purchase transactions and one contract. Auditors also identified seven individuals who were indebted to the state due to salary overpayments, but who the Department failed to place on warrant hold. The Department must report a debt to the state by placing the debtor on warrant hold under [Texas Government Code, Section 403.055\(f\)](#). Also, for two payment card transactions, the Department did not conduct a warrant hold check before making a purchase over \$500.

Per [Texas Government Code, Section 2252.903](#), effective Sept. 1, 2003, each state agency must check a vendor's warrant hold status for transactions involving a written contract when payment is made with local funds, and for payment card purchases over \$500. For transactions involving a written contract, the warrant hold check must be performed no earlier than the seventh day before and no later than the date of contract execution. The Department does include a provision in its contracts requiring payments to be applied to the person's state debt or delinquency, and payments made through the Uniform Statewide Accounting System (USAS) are automatically checked for holds and the system identifies payments issued to persons with outstanding state debt. However, this does not relieve the Department from conducting warrant hold status checks, per [Texas Government Code, Section 2252.903](#). See [eXpendit - Restricted Expenditures - Persons Indebted to the State](#).

Debarment Check

The Department was unable to provide proof it conducted the debarment check for 16 purchase transactions and one contract. The contract developer (purchaser) must check the [Debarred Vendor List](#) on the Comptroller's office website to confirm the vendor has not been debarred by SPD. An agency may not award a contract to a debarred vendor. See [Texas Government Code, Section 2155.077](#).

System for Award Management Check

The Department was unable to provide proof that staff conducted a System for Award Management (SAM) check before entering into a contract for 14 purchase transactions. The Department must check the SAM database to verify the vendor is not excluded from grant or contract participation at the federal level. A contract cannot be awarded to a vendor named on the U.S. Treasury Board, Office of Foreign Assets Control's master list of specially designated nationals and blocked persons (with limited exceptions). See [executive order 13224](#).

Iran, Sudan and Foreign Terrorist List Organization Check

The Department was unable to provide proof staff conducted the Iran, Sudan and foreign terrorist organization checks for nine purchase transactions and one contract. The contract was a highway construction contract, and five of the nine transactions



were related to highway construction. Per the Department's Construction Division, it checked the divestment lists and the vendors were not listed, but staff did not save the lists. Without proof the vendors were not identified on one of these lists, auditors cannot verify the agency complied with the requirement. See [Texas Government Code, Sections 2252.152](#) and [2252.153](#). The divestment lists are maintained by the Texas Safekeeping Trust Company and posted to the Comptroller's [Divestment Statute Lists](#) webpage.

Boycott Israel Check

The Department was unable to provide proof staff conducted boycott Israel checks for eight purchase transactions. Government entities may not enter into certain contracts 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, Section 2271.002](#) and the Comptroller's [Divestment Statute Lists](#) website.

Auditors identified one additional purchase transaction related to a highway construction contract that was missing the boycott Israel provision. While the Department's highway construction contracts are exempt from the requirement of checking the divestment lists, the Israel boycott requirement established by [Texas Government Code, Section 2271.002](#) still applies.

Recommendation/Requirement

The Department should ensure staff is trained on and understands the vendor compliance verification checks requirements. Additionally, the Department must conduct each VCV search and save proof of the dated searches before any purchase, procurement operation, contract award, extension or renewal. Staff must retain a dated copy of the review results from each specified website in the procurement file. The Department must review its contracts to ensure any contract with a company that has 10 or more full-time employees and a value of at least \$100,000 contains the required boycott Israel provision if the contract will be paid wholly or partly from public funds.

Department Response

Prior to the publication of the current Contract Management Guide in June 2018, vendor warrant holds were not required and the following wording was included in the TxDOT Terms and Conditions: "Respondent agrees that any payments due under the contract will be applied toward any debt or delinquency that is owed to the State of Texas."

The Construction Division will incorporate VCV requirements into its Letting Manual, with the exception of vendor warrant hold checks which will be made prior to payment by the Finance Division.



The Contract Service Division has VCV processes in place for all contracts through either a checklist or contract certifications.

The Procurement Division addresses VCV requirements in its Purchasing Manual and standard operating procedures (SOPs) as follows:

- *Purchasing Manual Chapter 2, Section 16 – Competitive Solicitation, Awarding and Dispatching Purchasing Orders Procurement SOPs:*
 - *PCard Emergency Operations*
 - *Section 2 No Bid_PCard*
 - *Section 3 5K-25K*
 - *Section 5 Service 25K-100K*
 - *Section 6 Commodities \$25K-\$50K*
 - *Section 13 POCN – PO Renewal*
- *The Professional Engineering Procurement Services Division addresses VCV requirements through a screening checklist outlined in the PEPS Contracting Manual, Chapter 8, Section 5.*
- *Project Finance Debt & Strategic Contracts addresses VCV requirements through certification forms.*
- *The Right of Way Division has updated its contracting procedures to include a checklist that includes VCV requirements.*
- *The Support Services Division has VCV processes in place for all contracts through either a checklist or contractor certification statements.*
- *The Transportation Programs Division addresses VCV requirements with certification statements.*

Lack of Documentation for Prompt Payment and Payment Scheduling Dates

For 10 transactions in the purchase sample and contracts reviewed, the Department was unable to provide proof of the date it received invoices electronically. Auditors noted the vendors' invoice dates on the transactions and the dates the Department stamped the invoices as received were two to five weeks apart. The Department did not provide documentation of any invoice disputes that would have affected these dates. Because the Department did not retain documentation of when the electronic invoices were received, auditors could not validate the accuracy of the dates used for prompt payment and payment scheduling purposes.

According to the Department, retaining the email record of the invoices was not a Comptroller's office requirement in the past. The Department added that it has no way of knowing how long it takes vendors to submit invoices to the Department. However, by retaining proof of when electronic invoices were received, the Department can establish when an invoice must be paid.



Agencies are responsible for ensuring that each payment is treated correctly in USAS according to the prompt payment law. Per [Texas Government Code, Section 2251.021](#), a state agency's payment is due on the 30th day after the latest of:

- The date the agency receives the goods under the contract.
- The date the performance of the contracted service is completed.
- The date the agency receives an invoice for the goods or services.

Additionally, an agency must accurately document the date it first receives an invoice regardless of any mailing instructions given to the vendor. Emailed invoices are considered received when the email is received; if receipt occurs after business hours, it is considered received the next business day. For proof of receipt date, agencies should maintain the email as part of their documentation. See [eXpendit - Prompt Payment - Comptroller Policy - Submitting Due Dates](#).

Recommendation/Requirement

The Department must ensure that, if vendor invoices are received via email or other electronic means, staff retains the emails in accordance with Comptroller's office guidance and keeps them on file to document the date the Department first received an invoice for prompt payment and payment scheduling purposes.

Department Response

TxDOT to date hasn't implemented a change in our invoice receiving process to capture and retain the originating email from the vendor or to retain an imaged copy of the vendor's envelope to certify its receipt date. Historically, TxDOT relied on the agency's stamp date as certification of the date the invoice was received. The Financial Management Division feels to try implementing a stopgap solution to retain the vendor's email or a scanned copy of their envelope in our current business process is not time or cost efficient and any negative impacts to the agency for delaying this document retention are monetarily immaterial. As note by the auditors, there were no vendor complaints cited against TxDOT regarding the received date our agency used as its stamp date. TxDOT requests this finding be moved to a Type II.

TxDOT will be implementing an e-invoicing solution which will retain an imaged copy of the invoice and originating email for review by auditors.

Payment Card Transactions

Auditors developed a sample of 18 payment card transactions totaling \$47,647.56 to ensure the Department complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed the following exceptions in these transactions.



Incorrect Purchase Category Code and Document Type

The Department used an incorrect purchase category code (PCC) for 18 payment card transactions, and also used an incorrect document type for the same 18 transactions. The Department used document type 9 and PCC 0, but the correct coding was document type 2 and PCC H.

The Department also used an incorrect PCC and document type for a State of Texas Retail Fuel Card purchase transaction. The Department used document type 9 and PCC 0, but the correct coding was document type 2 and PCC B.

The PCC is used in USAS to document the purchase method, commodity type and dollar category of a purchase. Incorrect use of PCCs can result in inaccurate reporting of procurement methods for information requests and can also affect the post-payment audit process. For guidance on PCC use, see *State of Texas Procurement and Contract Management Guide* – Appendix 29 – Purchase Category Code List, in both version 1.0, effective June 1, 2018, and version 1.2, effective Sept. 5, 2019. Ten of the 18 transactions occurred before September 2019, and the remaining eight occurred during or after that month.

According to the Department, this exception was due to the fact that the Department's CAPPs (internally referred to as PeopleSoft) was implemented to automatically code payment card transactions with document type 9 and PCC 0.

After further research and coordination with the Comptroller's office, the Department indicated that it is considering a system change to address the issue and allow the use of PCC H while conforming to USAS's coding requirements.

Recommendation/Requirement

The Department must ensure staff uses the correct document type and PCC when coding payment card transactions in CAPPs. If a system change cannot be implemented to code the correct document type and PCC by default, the Department must train relevant personnel to ensure the correct coding is done manually.

Department Response

This finding is related to two categories of payments for the Fuel Card and Purchase Card program. The P-Card transaction issue was resolved with the implementation of PeopleSoft's My Wallet module, which now systematically uses Doc Type 2, PCC Code H, with a generic Requisition Number, which is a system requirement for USAS. The Financial Management Division is working with TxDOT IT to ensure the correct Doc Type 2, PCC Code B, with a generic Requisition Number are used on all future Fuel Card purchases. This change is expected to be completed in AY22.



Improper Use of the Generic Texas Identification Number

For seven payment card transactions in the sample, the Department used the generic Texas identification number (TIN) for charge card transactions instead of the specific TIN of the vendor. In addition, auditors ran a USAS charge card data transaction report for Dec. 1, 2018, to Nov. 30, 2019, and found that the Department used the generic TIN in 179,010 transactions totaling \$28,173,222, out of a total 219,865 transactions totaling \$36,737,415. Department staff used the generic TIN in 81.42 percent of the transactions.

Auditors also ran a Citibank ad hoc report for payment card transactions dated approximately the same period as the USAS report covered. The report showed a total of 128,427 transactions totaling \$34,294,923.01 with 10,480 different vendors; 4,286 vendors were used five times or more for transactions totaling \$31,082,756.77. This shows that a significant subset of the vendors the Department uses payment cards with receives the vast majority of the Department's payment card spending; therefore, those vendors should be appropriately set up with their own specific TINs.

According to the Department, a large volume of its payment card purchases are one-time purchases from small vendors who are not set up in TINS. The Department indicated that it would be time consuming and inefficient to insist on obtaining a specific vendor TIN.

According to [Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements \(FPP A.043\) \(login required\)](#), state agencies must make every effort to obtain (or set up) the specific vendor TIN when coding transactions for third-party payments, and the generic TIN should only be used after such efforts have been exhausted. Using the correct TIN is necessary to capture the actual vendor/individual doing business with the state, which enhances transparency about the state's expenditures. Improper processing can result in inaccurate expenditure reporting for public information requests.

Recommendation/Requirement

The Department must review and modify its process and procedures for using charge cards issued by the state-contracted charge card vendor to ensure that, either at the point of sale or the point of payment, specific vendor TINs are obtained or vendors are set up in the Texas Identification Number System (TINS). This will enable the Department to code third-party payment transactions with the correct vendor TIN in the detail lines.

Department Response

The use of the generic Texas identification number will be reduced due to the implementation of My Wallet. My Wallet requires cardholders to select the correct supplier ID and mail code from the list of active supplier IDs in PeopleSoft. My Wallet will not eliminate the need for the generic number. It is cost prohibitive to establish supplier IDs



for every vendor TxDOT uses with credit card purchases due to volume, time required trying to obtain AP-152s from vendors, and setting up the vendors in USAS, all of which may create payment delays and impact to the rebate. TxDOT will establish a semi-annual review of credit card transactions that reflects the generic number usage in order to identify frequently used vendors and initiate the process to try and set up the vendor in USAS, without delaying the payment process. The use of the generic Texas identification number does not impact the prompt payment and supporting documentation is available to identify the actual vendor. As a result, TxDOT requests this finding be moved to a Type II.

Late Payments to Vendors

The Department paid the charge card vendor late in two instances, and paid a maintenance service vendor late once. Specifically, the Department paid two credit card invoices more than 30 days after the invoice was considered received, and paid the maintenance service vendor more than a year after the invoice was received.

According to the Department, new staff was not informed about the outstanding invoice for maintenance service incurred by prior staff, and did not learn about it until almost a year after the due date.

Agencies are responsible for ensuring each payment is treated correctly in USAS according to the prompt payment law. Per [Texas Government Code, Section 2251.021](#), a state agency's payment is due on the 30th day after the latest of:

- The date the agency receives the goods under the contract.
- The date the performance of the contracted service is completed.
- The date the agency receives an invoice for the goods or services.

Recommendation/Requirement

The Department must consistently pay all vendors, including the State of Texas Charge Card Program vendor, in the timeframe established by [Texas Government Code, Section 2251.021](#). If disputes with vendors or other special circumstances arise, they must be documented and maintained as part of the procurement file.

Department Response

The auditors cited late payments to CitiBank for purchases with its Purchase Card Program. In 2018 and 2019, the audit sample time-frame, TxDOT's legacy P-Card System (PCS) only processed transactions in batches. Staff would hold the batch of P-Card transactions to clear all issues (account codes, budget strings not set up, etc.) before approving the batch for processing. PeopleSoft does not allow for certain transactions to be held in a batch. Under the CitiBank program any penalty interest paid by the agency as a result of late payment is refunded to the agency. The only negative impact would be a potential unrealized rebate to the agency.



The main focus of this audit finding related to a payment to a district vendor that was delayed by more than a year. If this disagreement with the vendor was elevated to FIN in a timely manner, the issue would have been resolved more quickly. The Financial Management Division believes that HB 1476 will assist in this effort. After passage of the bill, FIN management implemented a policy change requiring both Division, District, and Financial Management staff to retain a written copy of dispute communications sent to a vendor. The Financial Management Division Director notified the agency's employees regarding documentation requirements on Aug. 24, 2021.

Travel and Travel Card Transactions

Auditors developed a sample of 30 travel transactions totaling \$3,273.37 to ensure the Department complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed the following exceptions in this group of transactions.

Auditors also developed a sample of 10 travel card transactions totaling \$6,740.56 to ensure the Department complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed no exceptions in this group of transactions.

Missing Documentation When Choosing a Travel Method That Is Not the Lowest Cost

In six instances, the Department did not document the business reasons or circumstances that prevented employees from using the lowest-cost method of travel, and did not require the travelers to include a cost comparison of transportation options in the travel file.

According to the Department, the lowest-cost method was not always used due to time constraints or the unavailability of state-contracted travel services. For example, in three instances there were no state-contracted rental car vendors within a reasonable distance of the traveler's headquarters; in another instance, the trip included three duty points.

According to [Texas Government Code, Section 660.007](#) and [Textravel \(FPP G.005\) – Conservation of state funds](#), a state agency must ensure each travel arrangement is the most cost effective, considering all relevant circumstances. Therefore, if a method of transportation other than the lowest-cost method would result in the most cost-effective travel arrangement overall, the circumstances must be documented in the travel file before or immediately after the trip. Providing the information after an audit has begun does not fully resolve the deficiency.

Recommendation/Requirement

The Department must provide training to its employees and travel coordinators, and modify its policies and procedures to ensure travel files include cost comparisons of transportation options (personal vehicle, rental car, airfare or agency fleet vehicle



when applicable). In addition, if an agency uses a method of transportation other than the lowest-cost method, the travel file should include documentation of the circumstances that justified the exception and approval by a supervisor or travel coordinator.

Department Response

Prepay Auditors will conduct small training sessions with District and Division Travel Coordinators. Information will be sent out to remind travelers of the policies and procedures for providing a cost comparison and proper documentation to be included in the expense report when the lowest cost method was not used.

Fixed Assets

The audit included a review of a limited number of fixed assets acquired by expenditures during the audit period to test for accurate reporting and to verify the existence of the assets. All assets tested were in their intended locations and were recorded in the State Property Accounting (SPA) system. Audit tests revealed no exceptions in these transactions.

Grant Transactions

Auditors developed a sample of nine grant transactions totaling \$1,218,156.99 to ensure the Department complied with the GAA, [Requirement to Publish Purpose of State Grants \(FPP S.010\)](#) and pertinent statutes. Audit tests revealed no exceptions in this group of transactions.

Refund of Revenue

Auditors developed a sample of 10 refund of revenue transactions totaling \$13,144,248.11 to ensure the Department complied with the GAA, [eXpendit \(FPP I.005\)](#) and pertinent statutes. Audit tests revealed no exceptions in this group of transactions.

Security

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

Failure to Notify Comptroller to Remove Employee From Signature Card

The Department did not notify the Comptroller's office about the termination of one employee who had been designated to approve expenditures, and the Department also did not request the Comptroller's office to remove the employee from the signature card as required. The Comptroller's office removed the employee 12 days after termination, so the former employee could have approved paper vouchers submitted to the Comptroller's



office during that time. Any payment produced by a paper voucher approved by the terminated employee would have constituted an unapproved expenditure. Auditors ran a report and determined no unapproved documents were processed during the audit period.

When a designated employee separates from an agency, the agency must notify the Comptroller's office no later than the fifth day after the effective date of termination. Any officer or employee may send the Comptroller's office that notification. See [34 Texas Administrative Code Section 5.61\(k\)\(3\)\(B\)](#).

Recommendation/Requirement

The Department must ensure compliance with the terminated employee security revocation requirements. It must also ensure the person responsible for notifying the Comptroller's office about revocations is aware of terminations no later than the fifth day after each termination and will follow up with the Comptroller's office to ensure it receives each notification and that revocation occurs.

Department Response

The Agency Security Coordinators have internally streamlined CPA access deletion requests by utilizing the internal TxDOT ticket system when employees are transferred or off-boarded. Currently, four separate requests and/or emails are needed to delete access to the CPA system and the signature card. TxDOT would like to suggest that the Comptroller streamline the deletion process so that only one request would be submitted and it would trigger CPA to check their systems and signature cards and delete accordingly.

TxDOT also suggests that signature card review be included as part of the semi-annual review process as this will help TxDOT ensure no signature card deletions are missed in the future.

Confidential Treatment of Information Acknowledgment (CTIA) Form Missing

As a routine part of the security review, auditors evaluated the Department's compliance with the requirement that all users of the Comptroller's statewide financial systems complete a CTIA form. When a new user requires access to Comptroller systems, the Department's security coordinator has the user read and sign the CTIA form. The agency's security coordinator keeps it on file for as long as the user has access to the systems plus five years. For two of the 10 employees reviewed, the Department stated it had archived the CTIA forms at an off-site storage facility and was unable to retrieve them for auditors to review.

Recommendation/Requirement

The Department must maintain CTIA forms in its files in accordance with the retention policy on the form and established by [Access Requirements for Comptroller Systems \(FPP K.015\)](#). The Department should consider converting older hard-copy forms into an electronic format for easier retrieval and review.



Department Response

The Agency Security Coordinators and FIN Management would like to discuss options with the Comptroller's Office for moving employees with CPA access to the online CTIA portal. This change would require the Comptroller's Office to allow TxDOT to re-certify existing users without removing and then restoring their access.

Internal Control Structure

The review of the Department's internal control structure was limited to obtaining reports identifying current users' access. The review did not include tests of existing mitigating controls. The audit tests conducted revealed the following exception in user access.

Control Deficiency Over Expenditure Processing

Auditors reviewed the Department's signature cards and security for USAS and TINS.

Auditors also ran a report to determine whether any of the Department's payment documents processed through USAS during the audit period because of the action of only one person. There were no documents that were either entered and approved or altered and approved by the same person without another person's electronic oversight.

Auditors identified one employee with security conflicts during the audit period. The employee was on the Department's signature card (so could approve a paper voucher for expedite) and could adjust vendor profiles/direct deposit information in TINS.

Recommendation/Requirement

To reduce risks to state funds, agencies must have controls over expenditure processing that segregate each accounting task to the greatest extent possible. Ideally, no individual should be able to process transactions without another person's involvement. Auditors strongly recommend the Department limit the access of users who can approve paper vouchers (by being on the signature card) to view-only access in TINS (PTINS02). An individual must not be able to change a vendor/employee profile or direct deposit information and approve a payment.

Department Response

The employee identified in this finding had their conflicting access removed. The issue arose from the employee's change in duties over time with the Financial Management Division. The signature authority review will be included in the division's semi-annual security review.



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.
- Verify voucher signature cards and systems security during the audit period are consistent with applicable laws, rules and other requirements.

Audit Scope

Auditors reviewed a sample of the Texas Department of Transportation (Department) payroll, purchase and travel transactions that processed through USAS and SPRS from Dec. 1, 2018, through Nov. 30, 2019, to determine compliance with applicable state laws.

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

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 Department should implement the recommendations listed in the Detailed Findings of this report. It is the Department's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the Department's documents comply in the future. The Department must ensure that the findings discussed in this report are resolved.



Audit Methodology

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

Fieldwork

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

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

Audit Authority

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

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

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

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

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

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

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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.