



# An Audit of the **Texas State Board of Pharmacy**

**Audit Report #515-21-01**  
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# Executive Summary

## Purpose and Scope

The objectives of this audit were to determine whether Texas State Board of Pharmacy (Board):

- 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 March 1, 2020, through Feb. 28, 2021.

## Background

The Texas State Board of Pharmacy is made up of eleven governor-appointed members. It oversees a license population that includes pharmacists, pharmacy technicians, and pharmacies (facilities).

The Board is a leader in protecting Texas citizens' public health by upholding quality standards for licensing and regulating the practice of pharmacy, the operation of pharmacies, and the distribution of prescription drugs.

Texas State Board of Pharmacy website  
<https://www.pharmacy.texas.gov/>

## Audit Results


The Board generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with emergency paid leave, refunds of revenue transactions, property management and security. However, the Board should consider making improvements to its payroll, purchase, contracts, payment card, travel and internal control processes.

The auditors reissued one finding relating to incorrect longevity payments. Auditors originally issued this finding on June 8, 2018, as part of the previous audit. An overview of audit results is presented in the following table.



## Table Summary

Area	Audit Question	Results	Rating
<a href="#">Payroll Transactions</a>	Did payroll transactions comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"><li>• Missing documentation to support payroll payments.</li><li>• Incorrect state effective service date/incorrect longevity payment.</li></ul>	Compliant, Findings Issued
Emergency Paid Leave	Did emergency paid leave transactions comply with pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<a href="#">Purchase, Payment Card and Contract Transactions</a>	Did purchase, payment card and contract transactions comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"><li>• Missing contract planning and contract management documentation.</li><li>• Missing evaluation committee recommendation.</li><li>• Missing written acknowledgement of compliance - with the State of Texas Procurement and Contract Management Guide.</li><li>• Missing Texas Ethics Commission's Certificate of Interested Parties (Form 1295).</li><li>• Missing vendor compliance verifications.</li><li>• Missing training verification documentation.</li><li>• Missing information to support payments for contracted services.</li><li>• Prompt payment and payment scheduling errors.</li><li>• Missing pre-award Vendor Performance Tracking System (VPTS) check &amp; failure to report to VPTS.</li><li>• Late reporting to the Legislative Budget Board.</li><li>• Failure to report contracting information in the Centralized Accounting and Payroll/Personnel System.</li><li>• Improper use of the generic Texas Identification Number.</li></ul>	Noncompliant

 Repeat Finding



Area	Audit Question	Results	Rating
<a href="#">Travel Transactions</a>	Did travel transactions comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"><li>• Incomplete travel documentation.</li><li>• Failure to conserve state funds.</li></ul>	Compliant, Findings Issued
Refund of Revenue Transactions	Did refund of revenue transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Fixed Assets	Were tested assets in their intended location and properly reported in the State Property Accounting system?	No issues	Fully Compliant
<a href="#">Targeted Analysis</a>	Did transactions from the targeted analysis comply with the GAA, pertinent statutes and Comptroller requirements?	Loss to the rebate payment card program.	Compliant, Findings Issued
Security	Are Board employees who are no longer employed or whose security was revoked properly communicated to the Comptroller's office?	No issues	Fully Compliant
<a href="#">Internal Control Structure</a>	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



Repeat Finding

## Key Recommendations

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

- Create and retain documentation supporting all employee salary actions.
- Enhance internal controls to confirm employee's prior state service and prevent incorrect state effective service dates resulting in incorrect longevity payments.
- Improve contracting and purchase/procurement planning processes to ensure they meet applicable requirements.



- Ensure the committee chair provides a recommendation of award to the Board once the evaluation process is completed.
- Ensure the contract manager or procurement director acknowledges in writing that the Board (at the time of purchase) complied with its contract management guide and with the State of Texas Procurement and Contract Management Guide.
- Ensure vendors submit a completed and signed Texas Ethics Commission (TEC) Form 1295 to the Board with the certificate of filing number and date.
- Ensure all required vendor compliance verifications are conducted prior to any purchase and contract award, extension or renewal; retain evidence to support these were performed.
- Ensure documented verification of training attendance is obtained and made available during the audit.
- Retain sufficient information and documentation to support the legality and fiscal responsibility of each payment.
- Review procedures to ensure the Board submits payment information for processing and releases payments in a timely manner to avoid incurring interest and minimize the loss of earned interest to the state treasury by scheduling all payments greater than \$5,000 for the latest possible distribution and in accordance with its purchasing agreements.
- Ensure the Vendor Performance Tracking System (VPTS) is used prior to determining whether to award a contract to a vendor, and that a vendor's performance is assessed and reported to VPTS at required intervals or once a contract is completed or otherwise terminated.
- Ensure contract awards are reported to the Legislative Budget Board (LBB) on time.
- Ensure contract and purchasing information for contracts entered into by the Board are reported in the Centralized Accounting and Payroll/Personnel System (CAPPS).
- Ensure staff uses a vendor-specific Texas Identification Number (TIN) when coding payment transactions to the charge card vendor.
- Ensure each travel file completely documents circumstances that prevent a traveler from using the state-contracted travel services, or circumstances where the travel arrangement used is the most cost effective.
- Ensure it improves its effort to conserve state funds expended for travel and documents the circumstances that led to the travel arrangements.
- Ensure payment card processes comply with requirements, take advantage of rebates, and avoid the double penalty of lost rebates and statutory interest.
- Segregate expenditure processing tasks to the maximum extent possible to ensure no individual can process payments without oversight.



# Detailed Findings

## Payroll Transactions

Auditors developed a sample totaling \$193,659.65 from a group of 30 employees and 111 payroll transactions to ensure the Board complied with the GAA, [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Audit tests revealed the following exceptions in this group of transactions.

### Missing Documentation to Support Payroll Payments

In the payroll transactions review, auditors identified eight employees who did not have documentation in their personnel file or the HR/payroll system to support the amounts paid to them.

- One employee was missing an approved personnel action form (PAF) to support a job promotion and subsequent salary increase.
- Six employees were missing complete performance evaluations to support the employees' eligibility to receive a merit increase.
- One employee was missing the employment application necessary to determine whether the employee had additional state service that would increase the longevity payment amount.

The missing PAF and employment application were not retained according to Board and state record retention rules. The incomplete performance evaluations were scanned inadvertently as one-sided although they were two-sided documents therefore every other page, including the page with the overall score/rating, was missing. In addition, the Board's record retention schedule did not always match state rules for retention of supporting documentation for post-payment audits. Without documentation to support the employee salary actions, auditors could not determine whether these salary actions and relevant payments were approved by an authorized individual or were accurate and proper.

A state agency must retain documentation in its files to support the legality, propriety and fiscal responsibility of each payment resulting from a payroll document if the payment is made from the agency's funds. The supporting documentation for a payroll payment must be retained in agency files at least until the end of the second appropriation year after the appropriation year in which the payment is processed. See [Texas Payroll/Personnel Resource – General Provisions, Required Documentation, Retention of Supporting Documents for Audit](#). In addition, as stated in the agency's approved records retention schedule, if any litigation, claim, negotiation, audit, public information request, administrative review, or other action is initiated or ongoing, state records involved in these action(s) cannot be destroyed until the completion and resolution of all issues that arise from it.





## Recommendation/Requirement

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The Board must ensure that documentation is created and retained as evidence that all employee salary actions, and compensation are accurate, proper and authorized. If paper records are transferred to electronic format, a quality assurance process should be in place to ensure the records are complete and accurate. The Board's record retention schedule should be reviewed to ensure all documentation meets the timeliness required for Comptroller office audits.

## Board Response

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*Board staff will implement a quality assurance process to verify records are complete at the time of scanning and that policies relating to salary actions and compensation meet current record retention guidelines.*

## Incorrect State Effective Service Date/Incorrect Longevity Payment

In the payroll transactions review, auditors identified one employee with missing verification of prior state service for work the employee listed on the job application. During the hiring and onboarding process, the Board did not contact the other agency to verify the reported employment. At the request of auditors during this audit, the Board conducted the prior state service verification for the employee and confirmed there was prior state service that had not been credited. As a result of the employee not receiving state service credit for time worked at the other state agency, the Board underpaid \$960.00 in longevity (through the December 2022 longevity payment).

When an agency hires an employee, the agency must research and document whether the employee has prior state service. See [Texas Payroll/Personnel Resource – General Provisions – Required Documentation](#). If there is prior state employment, the agency must confirm and properly record the amount of lifetime service credit. If the agency fails to verify an employee's prior state service, the lifetime service credit for longevity will be based on the employment date at the new agency and the eligible employee might be underpaid longevity pay. See [Texas Payroll/Personnel Resource – Non-Salary Payments – Longevity Pay](#).

## Recommendation/Requirement

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The Board must continue to research and verify prior state service time for its employees to prevent incorrect longevity payments. As part of its research, the Board should include reviews of employment applications, the Comptroller's State of Texas Employment History online application (see [Texas Payroll/Personnel Resource, State of Texas Employment History Application](#)), and other state HR/Payroll electronic systems to help ensure all prior employment history reflects in employees' state effective service date calculations. The Board must document and retain all prior state service research and verifications in the personnel files.



In addition, the Board must compensate the underpaid employee for any unpaid longevity payments.

## Board Response

*Staff reviewed and updated as needed all staff prior state service as well as implemented a new attestation form for documentation. As stated during the audit, Board staff are limited by information provided by other agencies. Missing or inaccurate information regarding prior state service and leave without pay was provided to the agency that could not be substantiated by the State's current tracking systems.*

*The Board will compensate the underpaid employee for unpaid longevity payments.*

## Emergency Paid Leave Transactions

Auditors developed a sample of five emergency paid leave transactions totaling \$7,428 to ensure the Board complied with pertinent statutes and Comptroller requirements. Audit tests revealed no exceptions in this group of transactions.

## Purchase/Procurement, Payment Card and Contract Transactions

Auditors developed a sample of 25 purchase/procurement transactions totaling \$920,308.37 and 15 payment card transactions totaling \$5,690.28. Two contracts with values of \$115,000 and \$271,615.12 were also selected along with a sample of seven payment transactions totaling \$89,045.61. All the sampled transactions were audited to ensure the Board complied with the GAA, [eXpendit \(FPP I.005\)](#), [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed the following exceptions for these groups of transactions.



Contract	Amount	Type of Service	Procurement Cycle				
			Planning	Procurement Method Determination	Vendor Selection	Contract Formation/Award	Contract Management
Contract A	\$115,000	Chemical Laboratory Services	Missing contract planning and contract management documentation.	No exceptions	Missing evaluation committee recommendation.	<ul style="list-style-type: none"><li>• Missing written acknowledgement of compliance with the State of Texas Procurement and Contract Management Guide.</li><li>• Missing vendor compliance verifications.</li></ul>	<ul style="list-style-type: none"><li>• Missing information to support payments for contracted services.</li><li>• Prompt payment and payment scheduling errors.</li><li>• Missing pre-award VPTS check and failure to report to VPTS.</li><li>• Late reporting to the LBB.</li><li>• Failure to report contracting information in CAPPs.</li></ul>
Contract B	\$271,615.12	Printing Services	No exceptions	No exceptions	No exceptions	<ul style="list-style-type: none"><li>• Missing written acknowledgement of compliance with the State of Texas Procurement and Contract Management Guide.</li><li>• Missing vendor compliance verifications.</li></ul>	Failure to report contracting information in CAPPs.

## Missing Contract Planning and Contract Management Documentation

Auditors identified one contract that lacked sufficient planning documentation, such as a contract developer's acquisition plan, needs assessment and cost estimate. According to the Board, the cause of the missing documentation is unknown as the leadership at that time is no longer with the Board.

The acquisition plan and the other planning documents listed above ensure the procurement is solicited, negotiated, executed and managed in a way that delivers best value to the state. It also ensures the contract requirements are satisfied, the goods and services are delivered in a timely manner, and the financial interests of the Board are protected. The contract manager is responsible for maintaining a master contract file of records produced throughout the life of the contract. For best business practice, see [\*State of Texas Procurement and Contract Management Guide\*](#) – Procurement Planning and Contract Management sections.



## Recommendation/Requirement

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

## Board Response

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*Staff will review and update policies and training as needed to ensure appropriate development, management, and monitoring. In addition, over the next year staff will be transferring contacts into Bonfire eProcurement Solution to assist with organization and ensure documentation and record keeping of all requirements.*

## Missing Evaluation Committee Recommendation

Auditors identified one contract where the Board was unable to provide documentation proving the evaluation committee chair made a recommendation of award. According to the Board, the cause of the missing documentation is unknown as the leadership at that time is no longer with the Board.

Once the evaluation process is complete, the committee chair prepares, signs and dates the master scoring matrix. The chair then issues a recommendation to either award the contract to the highest ranked respondent without discussion (tentatively awarding the contract to the highest ranked respondent subject to successful completion of negotiations) or not award the solicitation. It is recommended that each committee member review the master score sheet to verify the accuracy of the scoring. If the solicitation allows, the evaluation committee may recommend a contract award to more than one respondent, provided the awarded respondents have the highest evaluation rank. See [State of Texas Procurement and Contract Management Guide](#) – Evaluation Committee Recommendation.

## Recommendation/Requirement

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If the Board is using an evaluation committee to review vendor responses, the Board must ensure the proper evaluation process is used for the procurement, including the recommendation to award, tentatively award or not award the contract.

## Board Response

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*Staff will update procedures and training to ensure that committees reviewing vendor responses follow the proper evaluation process. In addition, over the next year staff will transfer contacts to Bonfire eProcurement Solution to assist with organization and ensure documentation and record keeping of all requirements.*





## Missing Written Acknowledgement of Compliance with the State of Texas Procurement and Contract Management Guide

Auditors identified two contracts missing written acknowledgement that the Board complied with the Comptroller's contract management guide and its own, internal guide. The Board stated, but could not prove, that staff complied with both guides. The leadership at that time is no longer with the Board. Without a written compliance acknowledgement, there is no proof the purchase was made according to the best value standard.

The contract manager or procurement director must acknowledge in writing that the Board complied with its contract management guide and the State of Texas Procurement and Contract Management Guide. See [State of Texas Procurement and Contract Management Guide](#) – Pre-Award Contract and Contract Amendment Compliance Checks – Agency Reviews and Approvals.

### Recommendation/Requirement

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The Board must ensure the contract manager or procurement director acknowledge in writing that the Board complied with its contract management guide and with the [State of Texas Procurement and Contract Management Guide](#). The acknowledgement should be retained in the procurement file according to record retention requirements.

### Board Response

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*Staff will update procedures and/or checklists to ensure a written Compliance Acknowledgment is included for each contract file. In addition, over the next year staff will transfer contacts to Bonfire eProcurement Solution to assist with organization and ensure documentation and record keeping of all requirements.*

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

Auditors identified one purchase transaction that did not have the required Texas Ethics Commission (TEC) Certificate of Interested Parties (Form 1295). Certain contracts with a value of \$1 million or more require completion of Form 1295. Before contract award, the vendor must give the agency a completed, signed form with the certificate of filing number and date. The contract developer must acknowledge the form on the TEC website. It is best practice to mention Form 1295 in the solicitation to give the vendor time to gather the required information early in the process. See [Texas Government Code, Section 2252.908](#).

### Recommendation/Requirement

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The Board must ensure any vendor involved in contract awards of \$1 million or more completes Form 1295 on the [TEC website](#), unless the type of contract involved is exempt from this requirement.



## Board Response

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*Staff will update procedures and/or checklists to ensure Form 1295 is complete on all required contracts and keep records of any exemptions. In addition, over the next year staff will transfer contacts to Bonfire eProcurement Solution to assist with organization and ensure documentation and recordkeeping of all requirements.*

## Missing Vendor Compliance Verifications

Auditors identified six purchase transactions and two contracts where the Board was unable to provide documentation that it performed the vendor compliance verification (VCV) checks. If VCV checks are not conducted prior to purchase or contract award, there is a risk of making payments to vendors who owe money to the state or awarding contracts to vendors that are not eligible to do business with the state.

## Debarment Check

The Board was unable to provide proof it searched the Comptroller's [Debarred Vendor List](#) for six purchase transactions and one contract. According to the Board, the cause of the missing documentation for the contract is unknown as the leadership at that time is no longer with the Board. The contract developer (purchaser) must check the Debarred Vendor List to confirm the vendor has not been debarred by SPD. See [State of Texas Procurement and Contract Management Guide – Debarment Check](#). Texas Government Code, Section 2155.077, states that an agency must not award a contract to a debarred vendor. SPD may bar a vendor from participating in state contracts for substandard performance, material misrepresentations, fraud, breach of contracts with the state, 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 debarred, SPD determines the period of debarment.

## System for Award Management Check

The Board was unable to provide proof it performed the System for Award Management (SAM) check prior to purchase or contract award for five purchase transactions and two contracts. According to the Board, the cause of the missing documentation for the contracts is unknown as the leadership at that time is no longer with the Board.

Agencies 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 Department, Office of Foreign Assets Control's master list of specially designated nationals & blocked persons (with limited exceptions). See [Executive Order 13224](#).



## Iran, Sudan, and Foreign Terrorist Organization Check

The Board was unable to provide proof it conducted the Iran, Sudan, and foreign terrorist organization checks for six purchase transactions and one contract. According to the Board, the cause of the missing documentation for the contracts is unknown as the leadership at that time is no longer with the Board. The Board stated that the checks for the purchase transactions were completed but staff did not retain documentation in the purchase files.

Agencies may not contract with a company doing business with Iran, Sudan, or a foreign terrorist organization. Prior to award, agencies must check the divestment lists posted on the Comptroller's website to determine if the potential awardee is in violation of this requirement. If the potential awardee is on the list, an agency cannot award the contract to that vendor. See [Texas Government Code, Sections 2252.152](#) and [2252.153](#).

## Boycott Israel Check

The Board was unable to provide proof it conducted the boycott Israel check for six purchase transactions and one contract. According to the Board, the cause of the missing documentation for the contracts is unknown as the leadership at that time is no longer with the Board. The Board stated that the checks for the purchase transactions were completed; however, staff did not retain documentation in the purchase files.

Agencies may not contract with a company for goods or services unless the contract contains written verification that the company does not boycott Israel and will not boycott Israel during the term of the contract.

Before awarding the contract, agencies must check the divestment lists posted on the Comptroller's website to determine if the potential awardee is in violation of this requirement. If the potential awardee is on the list, an agency cannot award the contract to that vendor. See the [State of Texas Procurement and Contract Management Guide](#) – Boycott Israel Check.

## Recommendation/Requirement

The Board must ensure all required VCV checks are conducted prior to any purchase and contract award, extension or renewal. Staff must retain records of the review results in the procurement file to prove the verification requirements were met.

## Board Response

*Staff will ensure all required VCV checks are conducted prior to purchase and award, extension or renewal. In addition, over the next year staff will transfer contacts to Bonfire eProcurement Solution to assist with organization and ensure documentation and recordkeeping of all requirements.*



## Missing Training Verification Documentation

Auditors identified one purchase transaction lacking documentation proving that an employee attended work-related training. The Board stated the class was postponed due to COVID-19 and no proof could be obtained until months after the invoice was paid; however, the Board failed to provide this proof.

According to [34 Texas Administrative Code Section 5.51\(c\)\(1\)\(D\)](#), an agency must retain the necessary documentation for each purchase to prove the payment is legal, proper and fiscally responsible.

Supporting documentation must be made available to the Comptroller's office in the manner required by the Comptroller's office. See [34 Texas Administrative Code Section 5.51\(e\)\(2\)-\(4\)](#).

## Recommendation/Requirement

The Board should enhance its policies and procedures to document verification of training attendance and make the documentation available during the audit to justify payment.

## Board Response

*Staff will update procedures to ensure documentation is submitted to HR proving training attendance and that upon receipt of proof, HR staff will notify accounting to verify training expense.*

## Missing Information to Support Payments for Contracted Services

Auditors identified one contract where the Board was unable to provide proof that the contracted services were rendered. According to the Board, the cause of the missing information is unknown as the staff who oversaw this portion of the contract is no longer employed with the Board.

The contract stated that the provider would analyze drug products on samples collected from pharmacies and provide written results to the Board along with information on testing methods. The samples were to be collected by the Board or by the provider if it was a non-resident sterile compounding pharmacy. The Board was unable to provide evidence it received written results from the vendor prior to invoicing. As a result, it could not be determined whether contracted services were rendered. The itemized invoices the Board provided lacked information on test completion and other terms stipulated in the contract.

To support the legality and fiscal responsibility of payments for purchased goods and services, agencies must keep and provide sufficient documentation so that auditors can determine what was purchased, the price agreed upon before purchase, that the goods





and services were received, and whether the coding for the expenditure was correct. Examples of required documentation include requisitions, contracts, purchase orders, contracts, invoices, receiving reports and receipts. Documentation must support a three-way match between the purchase agreement, invoice and receiving report to ensure the information matches. See [34 Texas Administrative Code Section 5.51](#).

## Recommendation/Requirement

The Board should ensure contracts include clear vendor requirements that support the services/goods are rendered/received and that the vendor meets those requirements by providing the information and documentation stipulated in the contract. The Board must ensure sufficient information and documentation is maintained to support the legality and fiscal responsibility of each payment that results from a purchase document if the payment is made from the agency's funds. At minimum, evidence is needed to perform a three-way match among the purchase agreement/work orders, invoice/receipt and receiving report.

## Board Response

*Staff will update procedures to ensure a three-way match among the purchase agreement/work orders, invoice/receipt, and receiving reports. In regards to contracts, over the next year staff will transfer contracts to Bonfire eProcurement Solution to assist with organization and ensure documentation and recordkeeping of all requirements.*

## Prompt Payment and Payment Scheduling Errors

### Prompt Payment

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

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

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

Auditors identified one purchase transaction, one payment card transaction, and one contract payment that were paid late, and interest was not paid to the vendors. According to the Board, the cause of the late payments is unknown as the leadership at that time is no longer with the Board. During the audit period, the Board paid vendors \$126.75 in prompt payment interest.



## Payment Scheduling

[Texas Government Code, Section 2155.382\(d\)](#), authorizes the Comptroller's office to allow or require state agencies to schedule payments that the Comptroller's office will make to a vendor. The Comptroller's office must prescribe the circumstances under which advance scheduling of payments is allowed or required; however, the Comptroller's office requires advance scheduling of payments when it is advantageous to the state.

Auditors identified two purchase transactions where the Board paid early, resulting in interest loss to the state treasury. The first transaction was paid 17 days early and the second transaction was paid 11 days early. According to the Board, the delay in payment could risk insurance coverage expiration for one of the transactions and a lapse in their professional recovery network program for the other transaction.

## Recommendation/Requirement

The Board must review its procedures to ensure that it submits payment information for processing as well as releasing the payment in a timely manner to avoid incurring interest liabilities. In addition, the Board must verify proper due dates are entered to ensure interest is paid correctly, if due. See [eXpendit – Prompt Payment](#). Also, to minimize the loss of earned interest to the state treasury, the Board must follow payment scheduling law and schedule all payments greater than \$5,000 for the latest possible distribution and in accordance with its purchasing agreements described in [eXpendit – Payment Scheduling](#).

## Board Response

*Staff will review procedures to ensure that payments are scheduled according to the prompt payment law and payment scheduling guidelines and that any approved exceptions be documented for record.*

## Missing Pre-Award VPTS Check & Failure to Report to VPTS

Auditors identified one contract where the Board failed to conduct a VPTS check before awarding the contract. Auditors also noted one purchase transaction where the Board failed to report as required for contracts over \$5 million. The Board stated that the cause of the missing checks is unknown as the leadership at that time is no longer with the Board.

Agencies must review vendor performance reports in VPTS before awarding a contract to identify vendors with a history of poor performance and/or unethical business practices.



VPTS provides state agencies with a comprehensive tool for evaluating vendor performance and reducing risk in the contract awarding process. Agencies are required to use VPTS to determine whether to award a contract to a vendor. A vendor's performance must be reported to VPTS once a contract valued at more than \$25,000 is completed or otherwise terminated. If the value of the contract exceeds \$5 million, the agency must review the contractor's performance at least once each year during the term of the contract and at each key milestone identified for the contract. See [State of Texas Procurement and Contract Management Guide](#) – Vendor Performance Tracking System Check and Vendor Performance Reporting.

## Recommendation/Requirement

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The Board must ensure procurement staff uses VPTS before determining whether to award a contract to a vendor. Staff must retain records in the procurement file with the VPTS review results dated prior to contract award. When the total value exceeds \$25,000, the Board also must ensure the vendor's performance is assessed and reported to VPTS once a contract is completed or otherwise terminated. Similarly, if the contract value exceeds \$5 million, reports must be done at other required intervals.

## Board Response

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*Staff will review procedures to ensure VPTS checks are completed before award and ensure performance assessment and reporting as needed based on value guidelines. In addition, over the next year staff will transfer contacts to Bonfire eProcurement Solution to assist with organization and ensure documentation and recordkeeping of all requirements.*

## Late Reporting to the Legislative Budget Board

Auditors identified one contract where the Board failed to report to the LBB on time. The Board stated that the cause of the late reporting is unknown as the leadership at that time is no longer with the Board.

According to the [General Appropriations Act, Article IX, Section 7.04](#), a state agency or institution of higher education must report any contract over \$50,000 to the LBB before the 30th calendar day after awarding the contract. The submission must include required documentation such as the award, solicitation documents, renewal, amendments, addendums, extensions, attestation letters and certain types of supporting records related to contracts; see the [LBB Contract Reporting Guide](#).

## Recommendation/Requirement

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The Board must ensure it reports contract awards including amendments to the LBB to comply with the [General Appropriations Act, Article IX, Section 7.04](#) and the [LBB Contract Reporting Guide](#).



## Board Response

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*Staff will ensure it reports contract awards including amendments to the LBB. In addition, over the next year staff will transfer contacts to Bonfire eProcurement Solution to assist with organization and ensure documentation and recordkeeping of all requirements.*

## Failure to Report Contracting Information in the Centralized Accounting and Payroll/Personnel System

Auditors identified two contracts where the Board failed to upload the required documentation and to report the required contracting information in CAPPs.

Per [Texas Government Code, Section 2101.041](#) and [34 Texas Administrative Code Section 5.302](#), agencies using CAPPs are required to provide solicitation and contracting information to CAPPs according to Comptroller's office requirements. Some examples of the required documentation include:

- A brief summary of each contract.
- Contract planning and solicitation documents.
- The criteria used to determine the vendor awarded the contract.
- The proposed budget for the contract.

See [Texas Government Code, Section 2101.041](#) and [34 Texas Administrative Code Section 5.302](#).

## Recommendation/Requirement

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The Board should enhance its policies and procedures to ensure it reports solicitation and contracting information to CAPPs in accordance with the Comptroller's office requirements.

## Board Response

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*The agency will review and update its procedures to ensure it reports solicitation and contracting information into CAPPs. In addition, over the next year staff will transfer contacts to Bonfire eProcurement Solution to assist with organization and ensure documentation and recordkeeping of all requirements.*

## Improper Use of the Generic Texas Identification Number

Auditors identified nine payment card transactions where the Board used the generic TIN instead of the specific vendor assigned TIN when coding third-party payment card transactions. Auditors noted that some vendors already had an assigned TIN in the Texas Identification Number System (TINS) that should have been used to record





these transactions. Additionally, the Board used the wrong payee's TIN when coding one payment card transaction. According to the Board, the cause of the coding issue is unknown as the leadership at that time is no longer with the Board.

The 264-transaction line for payment card transactions must carry either the TIN for the business where the original purchase was made or the non-specific payment card TIN. The non-specific payment card TIN may 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 905-transaction line is payable to the payment card company.

Improper processing procedures can result in inaccurate reporting of expenditures for public information requests. See [Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements \(FPP A.043\)](#) that explains how state agencies must process third party payments through the Uniform Statewide Accounting System (USAS).

## Recommendation/Requirement

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The Board should make every effort to obtain and use the correct vendor assigned TIN when making third-party payments to the state's charge card vendor. The Board should only use the generic TIN when all efforts to obtain the vendor's TIN are unsuccessful.

## Board Response

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*Staff will update procedures as needed to ensure every effort is made to obtain and use correct vendor assigned TIN before making third-party payments to the state's charge card vendor. If unsuccessful, staff will maintain documentation of efforts to comply.*

## Travel Transactions

Auditors developed a sample of 25 travel transactions totaling \$6,044.78 to ensure the Board complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed the following exceptions for this group of transactions.

### Incomplete Travel Documentation

Auditors identified three travel transactions where the Board's travel file was incomplete and did not fully document the circumstances that led to the travel arrangements. Specifically, for the:

- First transaction, the travel file included an exception claiming that contract travel service (Hotel Engine) was unavailable. However, the travel file did not include documentation showing that no contracted hotel room was available at the travel destination during time of travel (March 2020).



- Second transaction, the travel file did not include cost comparison documentation between flying to the destination versus driving. The Board indicated that flying in this case would have saved the traveler (the executive director) time compared to driving; however, this explanation was not documented in the travel file.
- Last transaction, the travel file included an exception claiming that contract travel service (Hotel Engine) was more expensive, and thus the hotel booking was done elsewhere for a lower overall cost. However, the travel file did not include documentation showing how the cost of hotel rooms differed among the booking options during time of travel (January 2021).

The Board indicated that travelers were unaware of these documentation requirements and will reemphasize these requirements to all travelers.

According to [TexTravel – Conservation of State Funds](#), a state agency must minimize the amount of travel expenses reimbursed by ensuring that each travel arrangement is the most cost-effective considering all relevant circumstances. To demonstrate it has considered all relevant circumstances, a state agency must include cost comparisons for lodging and/or transportation in its travel files.

## Recommendation/Requirement

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The Board must provide training to its employees and travel coordinators to ensure that each travel file completely documents circumstances that prevent a traveler from using the state-contracted travel services, or circumstances where the travel arrangement or method of transportation used is not the lowest cost but is nevertheless most cost-effective.

## Board Response

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*Staff will review policies and ensure documentation is received. In addition, review information regarding policies will be provided to all applicable staff.*

## Failure to Conserve State Funds

Auditors identified two travel transactions where the Board failed to conserve state funds by ensuring that each travel arrangement was the most cost-effective considering all relevant circumstances. Specifically, for both transactions, the traveler used a personal vehicle, but the travel file did not include a cost comparison to show cost-effectiveness. According to auditors' calculations using the Rental Vehicle vs. Mileage Reimbursement Calculator on FMX Travel, in both transactions a rental vehicle would have been cheaper. Auditors also researched the availability of state contract rental cars in the area of each traveler's designated headquarters and noted that at least one vendor had facilities nearby. For one of these two transactions, the travel file also did not include a map printout to show the route and miles driven.



The Board indicated that travelers were unaware of these documentation requirements and will reemphasize these requirements to all travelers.

According to [TexTravel – Conservation of State Funds](#), a state agency must minimize the amount of travel expenses reimbursed by ensuring that each travel arrangement is the most cost-effective considering all relevant circumstances. To demonstrate that it has considered all relevant circumstances, a state agency must include cost comparisons for lodging and/or transportation in its travel files.

## Recommendation/Requirement

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The Board must improve its effort to conserve state funds expended for travel. Specifically, the Board must provide training to its employees and travel coordinators to ensure that a cost comparison between different travel arrangements and methods of transportation is always performed and documented in the travel file, and that the lowest cost arrangement is used. If relevant circumstances arise such that a method of transportation that is not the lowest cost would nevertheless result in the most cost-effective travel overall, they should also be documented in the travel file.

## Board Response

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*Staff currently review all submissions for cost comparisons and adherence to state guidelines to ensure the lowest cost arrangement is used. Updated training will be provided for applicable staff who travel.*

## Refunds of Revenue Transactions

Auditors developed a sample of nine refunds of revenue transactions totaling \$1,536.20 to ensure the Board complied with state laws and regulations pertaining to refunds of revenue. Audit tests revealed no exceptions for this group of transactions.

## Fixed Assets

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

## Targeted Analysis

The audit included a review of several special reports generated outside the sample. Auditors reviewed the Board's procedures for processing these transactions to determine compliance with state rules, regulations and processing requirements. Audit tests revealed the following exceptions in the target analysis reports.



## Loss to the Rebate Payment Card Program

The Board was not in compliance with the early payment discount/rebate requirements for state agencies and institutions of higher education because it failed to take advantage of early discounts/rebates offered by the payment card vendor.

In a report generated outside of the payment card sample, auditors reviewed all Citibank (Citi) payments processed in USAS during the audit period as part of the payment card rebate program. Auditors identified late payments resulting in interest payments to the vendor and lost discounts/rebates to the state. According to the Board, in 2020 its accountant was not given the proper access to download the purchase card and travel statements in Citibank, which resulted in the late processing of many payments in CAPPS.

Citi Charge Card contract [946-M2](#) contains a rebate program based on the total annual expenditures of all participating entities. In addition to the rebate percentage, an early payment incentive increases for each day a payment is received in full before 30 days from Citi's statement/invoice date. Statements are issued on the third of every month and are available to the agencies the next day, the fourth. Both the prompt payment date and the discount rebate date start the day after the statement/invoice is available on Citi's website. Additionally, since charge-offs for delinquent accounts are deducted from the rebate as credit losses at the rebate-payable level, agencies should pay account balances as quickly as possible.

Citi currently pays a base rebate of 1.93 percent on payments received 30 days after the statement date, which increases by .75 basis points for each day a payment is processed before 30 days from the statement date. At 31 or more days from the statement date, no rebate is paid. Rebates accrue from the first dollar of spend on all card products including Virtual Card and ePayables (excluding individual bill).

The Board did not take advantage of the discounts offered by Citi and paid the invoice an average of 54 days after the statement date. By not taking advantage of the rebates, agencies and institutions of higher education hinder SPD's ability to negotiate rebates on future contracts.

According to [Texas Government Code, Section 2251.030](#), the Legislature expects government agencies to take advantage of early payment discounts, so agencies should submit payment documents to the Comptroller's office in time to do so.

## Recommendation/Requirement

The Board should change its payment processes to comply with requirements, take advantage of rebates, and avoid the double penalty of lost rebates and late payment interest. The Board should:





- Receive its Citi Commercial Card account statements online. Online account statements are available 48 hours from the statement date.
- Work with Citibank to develop automated reconciliation for travel and purchase receipts as transactions occur or shortly after the statement is issued.
- Make partial payments based on supporting documentation received and reconcile and pay as costs arise.

## Board Response

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Staff will review and update procedures to ensure statement are reviewed in a timely manner to meet all deadlines, take advantage of rebates, and avoid further penalties.

## Security

The audit included a security review to identify Board 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 exceptions.

## Internal Control Structure

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

### Control Weakness Over Expenditure Processing

The Board had one employee with multiple security capabilities. The employee could:

- Enter/edit payment vouchers and payroll in USAS and release/approve payment vouchers and payroll in USAS.
- Approve a paper voucher for expedite (on the agency's signature card) and was on the agency's Authorization for Warrant Pickup list.
- Edit/update a vendor or employee profile/direct deposit instructions and warrant hold status in TINS and on the agency's signature card (could approve a paper voucher for expedite) and could approve electronic payment vouchers in USAS.

According to the Board, when the employee first arrived, their predecessor went ahead and gave them "all access" in USAS because few staff members on the finance team were cross trained in USAS functions. The employee is no longer employed with the Board.



## Recommendation/Requirement

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The Board 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 Board implement the following. Limit user access:

- To either enter/change vouchers or release/approve batches in USAS. If the Board cannot separate the functions and/or does not have other internal mitigating controls in place, it should elect to have the document tracking control edit on the Agency Profile (DØ2) set to either prevent or warn a user attempting to release a batch that the same user entered or altered.
- By removing the user from the Agency Authorization for Warrant Pickup list or by removing the user from the agency's signature card.
- Of employees who can enter/change vouchers or release/approve batches in USAS or approve paper voucher to view-only access in TINS (PTINS02). An individual should not be able to create and approve a payment and create or change a vendor profile/direct deposit information or change a vendor's warrant hold status.

## Board Response

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*Policies were updated and permissions were edited so as to not allow one staff member to perform both functions regarding entry of vouchers and release batches in USAS or entry and release payroll.*



# Appendices

## Appendix 1 — Objectives, Scope, Methodology, Authority and Team

### Audit Objectives

The objectives of this audit were to:

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of any of the following:
  - Uniform Statewide Accounting System (USAS),
  - Uniform Statewide Payroll/Personnel System (USPS),
  - Standardized Payroll/Personnel Reporting System (SPRS),
  - Human Resource Information System (HRIS) or
  - The Centralized Accounting and Payroll/Personnel System (CAPPS).
- Verify payments are made in accordance with certain applicable state laws.
- Verify assets are in their intended locations.
- Verify assets are properly recorded for agencies and institutions of higher education that use the State Property Accounting (SPA) system.
- Verify voucher signature cards and systems security during the audit period are consistent with applicable laws, rules and other requirements.

### Audit Scope

Auditors reviewed a sample of the Texas State Board of Pharmacy (Board) payroll, purchase, contract, payment card, travel and refund of revenues transactions that processed through USAS and SPRS from March 1, 2020, through Feb. 28, 2021, to determine compliance with applicable state laws.

The Board 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 Board should implement the recommendations listed in the Detailed Findings of this report. It is the Board'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 Board's documents comply in the future. The Board 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**

*Mayra V. Castillo, CTCD, CTCM, Lead Auditor*

*Chris Taylor, CIA, CISA*

*Jack Lee*



## 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.