



An Audit of the Seventh Court of Appeals

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Executive Summary

Purpose and Scope

The objectives of this audit were to determine whether the Seventh Court of Appeals (Court):

- 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.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from June 1, 2022, through May 31, 2023.

Background

The Seventh Court of Appeals was created in 1911. The Court is composed of a chief justice and three additional justices. It has intermediate appellate jurisdiction over both civil and criminal cases appealed from lower courts in 46 counties of Texas.

Seventh Court of Appeals website
<https://www.txcourts.gov/7thcoa/>

Audit Results

The Court largely complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with payroll transactions or capital asset recording processes. However, the Court should consider making improvements to the Court's purchase/procurement, travel and access to statewide financial systems.

The auditors noted no recurring issues from the previous post-payment audit issued on Feb. 18, 2016. An overview of audit results is presented in the following table.



Table Summary

| Area | Audit Question | Results | Rating |
|--|--|--|----------------------------|
| Payroll Transactions | Did payroll transactions comply with the GAA, pertinent statutes and Comptroller requirements? | No issues | Fully Compliant |
| Purchase, Payment Card and Contract Transactions | Did purchase, payment card and contract transactions comply with the GAA, pertinent statutes and Comptroller requirements? | <ul style="list-style-type: none">• Missing proof of vendor compliance verifications.• Incorrect procurement process.• Improper payment of sales tax.• Overpayment of purchase reimbursement. | Compliant, Findings Issued |
| Travel and Travel Card Transactions | Did travel and travel card transactions comply with the GAA, pertinent statutes and Comptroller requirements? | <ul style="list-style-type: none">• Incomplete travel documentation.• Lack of conservation of state funds. | 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 |
| Target Analysis/Ad Hoc Reports | Did the Court comply with the GAA, pertinent statutes and Comptroller requirements? | Late signature on the Confidential Treatment of Information Acknowledgment (CTIA) form | Compliant, Findings Issued |

Key Recommendations

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

- The Court must conduct all vendor compliance verification checks before any purchase, contract award, extension or renewal, and must retain dated results in the procurement file.
- The Court must ensure no goods or services are provided outside the terms of a contract.
- The Court must thoroughly review invoices to ensure no sales tax is paid with state funds.



- The Court must ensure each reimbursement payment is within the limits established by state rules and the General Appropriations Act.
- The Court must maintain appropriate travel documents in the file and must conserve state funds by considering all relevant circumstances to ensure travel arrangements are the most cost-effective. If travelers use travel methods that are not the lowest cost, they must clearly explain and document the circumstances in the travel file.
- The Court must ensure no user can access the statewide financial systems before signing a Confidential Treatment of Information Acknowledgment (CTIA) form, and must retain signed CTIA forms for the required period.



Detailed Findings

Payroll Transactions

Auditors developed a sample totaling \$304,796.96 from a group of 18 employees and 58 payroll transactions to ensure the Court complied with the GAA, [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Audit tests revealed no exceptions in this group of transactions.

Purchase Transactions

Auditors developed a sample of 15 purchase transactions totaling \$28,910.42 to ensure the Court complied with the GAA, [eXpendit \(FPP I.005\)](#) and pertinent statutes. Audit tests revealed the following exceptions in this group of transactions.

Missing Proof of Vendor Compliance Verifications

The Court was unable to provide proof, such as a screen print, of the vendor compliance verifications (VCVs) for 10 purchase transactions. The Court must provide dated proof it performed each verification. The Court indicated it follows the *State of Texas Procurement and Contract Management Guide* for its procurements, and stated it was not aware of these compliance verifications.

Office of Foreign Assets Control Checks

The Court could not provide proof it performed the Office of Foreign Assets Control (OFAC) checks before executing contracts for 10 purchase transactions. Agencies cannot award a contract to a vendor that is in violation. The OFAC check requirement applies to all state agencies because all persons and entities within the United States must comply with OFAC regulations.

Iran, Sudan and Foreign Terrorist Organization List Check

The Court could not provide proof it performed the Iran, Sudan and foreign terrorist organization checks before executing contracts for 10 purchase transactions. Agencies may not contract with a company doing business with Iran, Sudan or a foreign terrorist organization. Agencies must check the divestment lists posted on the Comptroller's website before contract award to determine if the potential awardee is in violation of this requirement. The Texas Safekeeping Trust Company maintains the divestment lists and posts them to the Comptroller's [Divestment Statute Lists website](#). 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](#).



Vendor Debarment Check

The Court did not search the Debarred Vendor List before executing 10 purchase transactions. Contract developers must review the [Debarred Vendor List](#) posted on the Comptroller's website before contract award to ensure a potential vendor has not been debarred by the Statewide Procurement Division (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 contract 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 barred, SPD determines the period of debarment.

Boycott Israel Check

The Court could not provide documentation that it performed boycott Israel checks before entering into contracts for 10 purchase transactions. Agencies may not contract with a company for goods or services unless the contract contains a written verification from the company that it does not boycott Israel and will not boycott Israel during the term of the contract. Before awarding a contract, agencies must check the divestment lists on the Comptroller's website to see 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 Court must conduct all applicable VCVs before any purchase, contract award, extension or renewal. The Court must retain dated results from each specified website and include them as evidence in the procurement file.

Court Response

The Clerk of the Court and Accountant will compare each acquisition with statutes, rules and regulations and comport with same as applicable.

Incorrect Procurement Process

The Court had an agreement with an attorney to provide research services for the Court. The agreement expired on March 31, 2022. The attorney conducted research for the Court during the month of June 2022 and submitted an invoice to the Court for these services. This work was conducted without written agreement with the Court. The Court



amended the original agreement to extend through June 2022, but the amendment was not signed until October 2023. The Court stated it had a verbal agreement with the attorney conducting the research services.

Recommendation/Requirement

The Court must enhance its contract monitoring procedures to ensure no goods or services are provided outside the terms of a contract. The Court and the vendor may extend the contract beyond the terms of the contract only if both parties agree to amend the contract in writing. This amended contract must be signed and dated before any goods or services are delivered or rendered.

Court Response

Upon the Court's analysis, the Court deems this is a mistaken finding. Statute, rule or procedure permits the acquisition of goods and services through contract or written documents. Services of the contract attorney in question were retained or paid through those means during his entire tenure with the Court. Both the contracts and written invoice from the contract attorney evidence the agreement and were given to the auditors. The written invoice was expressly referenced as "For Contract legal work," and the charges and payment of same comported with the original written agreement executed on Dec. 16, 2021. The Court will continue to comply with applicable statutes, rules and regulations regarding the acquisition of goods and services.

Comptroller Response

The agreement referenced in the response above expired March 2022; therefore, the work done by the attorney performed in June 2022 was done with no legally binding contract in place. An active agreement ensures that procurement and monitoring activities occurred or will occur, including the assessment of risk, verification of contractor performance, monitoring compliance with deliverable and reporting requirements, and enforcement of contract terms, and ensures that contract performance and practices are consistent with applicable rules, laws and the *State of Texas Procurement and Contract Management Guide*.

Improper Payment of Sales Tax

The Court paid sales tax on the purchase of one laptop. The Court did not use normal purchasing methods because it needed the laptop immediately to review trial exhibits in a pressing appeal.

State sales tax is not payable with state funds. The purchase, lease or rental of a taxable item is exempt from tax; when the organization or its authorized purchasing agent pays for a taxable item, it must provide an exemption certificate to the vendor. See [34 Texas Administrative Code Section 3.322\(g\)\(2\)](#).



Recommendation/Requirement

The Court must use its tax-exempt status for purchases from merchants who do business in Texas. The Court must present its tax exemption documentation at the time of purchase to ensure it does not pay a tax. The Court must thoroughly review invoices to ensure it does not pay sales tax with state funds. The Court should consider recovering the tax reimbursement.

Court Response

The Clerk of the Court and Accountant will continue to present tax exemption documentation at the time of purchase and review invoices to ensure that the Court does not pay sales tax with state funds.

Overpayment of Purchase Reimbursement

The Court reimbursed an incorrect amount to an employee. The employee had paid out of pocket for a conference registration fee that included attendance by a guest. However, the guest was not attending the event on behalf of the Court or as part of the Court's official state business, so the Court should have only reimbursed the cost of the employee's own registration. The Court indicated that this was an oversight. When auditors notified the Court about this error, it recovered the overpaid amount and deposited the refund in the state treasury.

Recommendation/Requirement

The Court must review all reimbursement requests to ensure the expenses are allowable. The Court should provide training to its employees on what constitutes reimbursable expenses.

Court Response

The expenses in question were reimbursed by the recipient. The Clerk of the Court and Accountant will continue to review vouchers and documentation to avoid payment of any non-reimbursable expenses.

Travel Transactions

Auditors developed a sample of 18 travel transactions totaling \$10,838.63 to ensure the Court 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

For three travel transactions, the Court's travel documents were incomplete. They did not fully document either the circumstances that led to the travel arrangements or the Court's preapproval of these arrangements.

In two instances, the Court reimbursed the travelers for miles driven in personal vehicles. However, the travel documentation did not include cost comparisons to prove that driving personal vehicles was more cost-effective than renting vehicles. In the first instance, the Court indicated the employee drives a "midsize/standard SUV," so renting a comparable vehicle would have cost more than renting a standard intermediate vehicle. It also would have cost additional time and money for the employee to go from his/her residence to the rental car agency. In the second instance, the Court indicated that before travel, the chief justice authorized the traveler to use his/her personal vehicle because the traveler was transporting Court equipment necessary to conduct oral arguments.

In the third instance, the Court reimbursed the traveler for miles flown in a personally owned or leased aircraft. However, the travel documentation did not include a cost comparison between flying to the destination versus driving. The Court stated that travel by car would have cost more than by plane due to the additional costs of lodging and meals the traveler would be entitled to. Additionally, traveling by plane allowed the traveler to use the saved travel time working instead of driving. However, the travel voucher did not include any of these justifications or the cost comparison.

According to [Texas Government Code, Section 660.007](#) and [TexTravel – Conservation of State Funds](#), a state agency must minimize the amount of travel expenses reimbursed by ensuring each travel arrangement is the most cost-effective considering all relevant circumstances. To prove it has considered all relevant circumstances, a state agency must include cost comparisons for lodging and/or transportation and any preapprovals or business justifications in its travel documentation before the travel occurs.

Recommendation/Requirement

The Court must provide training to its employees and travel coordinators to ensure each travel file completely documents the circumstances when the Court uses travel arrangements that are not the lowest cost but are the most cost-effective considering all relevant circumstances.

Court Response

The Court presented the auditor with a cost analysis for each of the travel instances identified above. These analyses demonstrated that the travel arrangements of the employees were the most cost-effective considering all relevant circumstances. The Court's Accountant continually reviews requests for travel reimbursement to ensure compliance with applicable statutes, rules, and regulations, including TexTravel.



Comptroller Response

While the Court provided additional calculations and explanations, these analyses were completed and provided after the audit started. A state agency must retain documentation that supports its compliance with [Texas Government Code, Section 660.007](#), which requires agencies to minimize the amount of travel expenses paid or reimbursed to an employee. To fulfill this requirement, an agency should include cost-comparison documentation completed prior to the actual travel, and include any exceptions or justifications in the supporting documentation of the [travel voucher](#). This comparison must be performed prior to the travel to ensure that the most cost-effective method can be chosen before the travel expenses are incurred.

Lack of Conservation of State Funds

For one travel transaction, the Court over-reimbursed an employee for lodging and meals in excess of the allowable event days. The traveler requested reimbursement for meals and lodging expenses incurred before arriving at and after leaving the conference. The total amount of overpayment was \$676.27.

While [Textravel - Lodging](#) permits a state agency to reimburse a traveler for lodging expenses incurred the night before state business begins and the night after state business ends, the intent of this provision is to give the traveler full days to conduct state business without having to travel during the business days. Also see [34 Texas Administrative Code Section 5.22](#).

After reviewing the conference event's agenda, auditors determined that state business began on the morning of July 14, 2022, and ended by midday July 15, 2022. Auditors also noted the agenda included a two-hour welcome reception the evening of July 13, 2022. The traveler received reimbursement for meals and lodging expenses incurred on July 11 and July 13 through July 16. Based on documentation provided by the Court, auditors determined:

- Meals and lodging expenses incurred on July 11 are not reimbursable because the traveler was still en route and not at the duty point. If the traveler had chosen to fly, the travel time would have reasonably been expected to be within one day. The traveler could have departed from the residence or headquarters on July 13 and arrived at the duty point the same day, only incurring travel expenses for that day. However, because the traveler chose to drive for personal convenience, meals and lodging incurred for July 11 or 12 would not be reimbursable.
- Meals and lodging expenses incurred on July 13 are reimbursable because it was the night before state business began and the traveler had arrived at the duty point.
- Meals and lodging expenses incurred on July 14 are reimbursable.



- Auditors noted that the traveler had departed the duty point and lodged in a different state the night of July 15. The lodging expenses incurred for the night of July 15 were not necessitated by state business. Additional expenses incurred due to extra travel time are not reimbursable when they result from the traveler's choice for personal convenience.

Texas Government Code, Section 660.007(a) requires a state agency to minimize the amount of travel expenses paid or reimbursed by the agency. The agency must ensure each travel arrangement is the most cost-effective considering all relevant circumstances.

Recommendation/Requirement

The court must exercise caution in its use of state funds and ensure those expenditures are fiscally responsible. The Court must obtain a reimbursement from the traveling employee unless it determines it is not cost-effective to do so.

Court Response

Upon the Court's analysis of "all relevant circumstances" as required by statute, the Court deems this is a mistaken finding. The traveler was engaged to teach and attend a seminar for Texas attorneys in Montana and was located in South Dakota two days before the seminar's commencement. He drove from his location in South Dakota to the seminar in the neighboring State of Montana. He did so instead of driving back through six states to his duty point in Texas, boarding a plane, flying the 1241 miles to the nearest airport by the seminar's location, renting a car, and driving about 50 miles to the seminar. Upon the seminar's end at noon on July 15th, the traveler began his two and a half day, 1241-mile drive back to his Texas duty point. Though mileage reimbursement would exceed \$800, he limited it to the cost of an airplane ticket (without reimbursement for car rental). This was done per pre-travel discussions with the Comptroller's representative. The same representative noted the likelihood of incurring expense for additional lodging and meals due to driving but, at no time, suggested they were prohibited, impermissible or a lack of fund conservation. The ultimate reimbursement payment for lodging and meals (after correcting/returning mistaken reimbursement for July 11th as opposed to July 12th) fell within the exact wording of the TexTravel rule upon which the traveler relied. Under all the relevant circumstances, the expenditure was fiscally responsible, cost effective, and made after seeking direction from the Comptroller's office. The Court, its Clerk and its accountant continually monitor travel expenditures to conserve State funds while considering all relevant circumstances. The traveler, under protest, has repaid \$676.27.

Comptroller Response

The Comptroller's office appreciates the Court's continuing efforts to conserve state funds. For the travel transaction in question, a comprehensive cost comparison prior to travel being conducted to compare the overall costs of the possible travel arrangements was not completed. This cost comparison would have made it clear that flying would be



more cost-effective than driving. Therefore, reimbursement of expenses (transportation, lodging, meals) incurred beyond what the cost comparison/estimate showed as the most cost-effective arrangement should have been considered prior to traveling. Additionally, as indicated in the response, the undocumented Comptroller representative's discussion noted the likelihood of incurring expenses for additional lodging and meals due to driving, but without the actual cost comparison, travel details and dates, could not fully account for or predict the correctness of the charges presented for reimbursement or their prohibition and impermissibility. Lodging expenses incurred more than one night before or after the state business begins or ends are not reimbursable and do not comply with the Travel Regulations Act, Comptroller rules, or policies and procedures adopted by the Comptroller's office.

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 properly recorded in the State Property Accounting (SPA) system. Audit tests revealed no exceptions in these transactions.

Target Analysis/Ad Hoc Reports

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

Late Signature on Confidential Treatment of Information Acknowledgment (CTIA) Form

Auditors evaluated the Court's compliance with the requirement that all users of the Comptroller's statewide accounting systems complete a CTIA form. When a new user requires access to the Comptroller's systems, the Court's security coordinator has the user read and sign the CTIA form. The security coordinator must keep the form on file for as long as the user has access to the systems plus five years. See [Access Requirements for Comptroller Systems \(FPP K.015\)](#).

One employee did not sign the CTIA form until 47 days after connecting to Comptroller systems. The employee accessed the systems on Dec. 4, 2020, but signed the acknowledgment form on Jan. 20, 2021.



Recommendation/Requirement

The Court must enhance its procedures to ensure no user gains access to any of the statewide financial systems before completing a CTIA form. It must also ensure the original CTIA form is kept on file as long as the user has access to the statewide accounting systems plus five years.

Court Response

The Clerk of the Court and Accountant will continue to ensure that no employee gains access to the statewide financial systems without completing a CTIA form and they will retain said documentation as required by applicable rules and regulations.



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 Court's payroll, purchase and travel transactions that processed through USAS and CAPPS from June 1, 2022, through May 31, 2023, to determine compliance with applicable state laws.

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

Scottie Compton, CTCD, CTCM, Lead Auditor

Jack Lee, Staff Auditor



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.