



An Audit of the **Texas Military Department**

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Executive Summary

Purpose and Scope

The objectives of this audit were to determine whether the Texas Military Department (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 March 1, 2020, through Feb. 28, 2021.

Background

The Texas Military Department is composed of the three branches of the military in the state of Texas. These branches are the Texas Army National Guard, the Texas Air National Guard, and the Texas State Guard. All three branches are administered by the governor appointed state adjutant general and fall under the command of the governor.

Texas Military
Department website
<https://tmd.texas.gov/>

The Department's mission is to provide the governor and the president with ready forces in support of state and federal authorities at home and abroad.

Audit Results

The Department complied with the General Appropriations Act (GAA), relevant statutes, and Comptroller requirements in one area of expenditure; auditors found no issues with grant transactions. However, the Department should consider implementing new controls and making improvements to its processes for payroll, procurement, contracting, payment/travel cards, travel, fixed assets, security, and internal control structure.

The auditors reissued four findings from the previous audit conducted at the Department related to:

- Failure to post a solicitation notice using Electronic State Business Daily (ESBD) database.
- Failure to request security access removal.
- Failure to notify the Comptroller's office to remove employee(s) from signature card.
- Employees with overlapping security access for multiple duties.

Auditors originally issued these findings in October 2018. 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?	<ul style="list-style-type: none">• Incorrect overtime pay calculation.• Overpayment of state active duty per diem.• Incorrect longevity/hazardous duty payment amounts.• Incorrect salary payment amount.	Compliant, Findings Issued
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/late conflict of interest disclosures.• Missing contract development documentation.• Incorrect contract valuation.• Administrative review of respondent solicitation not conducted/missing record of solicitation receipts.• Missing quality control review documentation.• Missing contract documentation – reference check.• Missing written acknowledgement of compliance with Procurement and Contract Management Guide.• Lack of contract monitoring and oversight.• Missing/late reporting to the Legislative Budget Board.	Noncompliant

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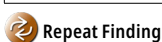


Area	Audit Question	Results	Rating
Purchase, Payment Card, and Contract Transactions CONTINUED		<ul style="list-style-type: none">• Failure to report to Vendor Performance Tracking System.• Missing proof of vendor compliance verifications.•  Failure to post to Electronic State Business Daily.• Missing documentation to adequately support payments.• Purchases incorrectly classified as exempt.• Prompt payment and payment scheduling errors.• Duplicate payments.• Credit card reconciliations not performed or not timely.• Prohibited items purchased and/or missing pre-approvals.	Noncompliant
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">• Excessive reimbursement/ direct payment amounts.• Lack of conservation of funds.• Non-compliance with advance approval for out-of-state travel.• Approval for reimbursement occurred prior to travel.• Missing required information on the travel voucher form.• Travel expense reimbursement to incorrect individual.	Noncompliant

 Repeat Finding



Area	Audit Question	Results	Rating
Grants Transactions	Did grant transactions comply with the GAA, pertinent statutes, and regulations pertaining to grants?	No issues	Fully Compliant
<u>Fixed Assets</u>	Were tested assets in their intended location and properly reported in the State Property Accounting (SPA) system?	<ul style="list-style-type: none"> • Incorrect SPA reporting/ classification. • Incorrect valuation in SPA. • Missing asset tags. • Construction in progress assets not capitalized to the appropriate capital asset category when complete. 	Noncompliant
<u>Targeted Analysis</u>	Did the Department comply with targeted areas of the GAA, pertinent statutes, and Comptroller requirements?	<ul style="list-style-type: none"> • Loss to the payment card rebate program. • Missing/ incomplete Direct Deposit Authorization forms (international ACH transactions). • Incorrect processing of third-party transactions. 	Compliant, Findings Issued
<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 request security access removal for terminated employee. 🔄 Failure to notify Comptroller's office to remove employee(s) from signature card. • Missing Confidential Treatment of Information Acknowledgment form. 	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 to help prevent fraud?	<ul style="list-style-type: none"> 🔄 Control weakness over expenditure processing. 	Control Weakness Issues Exist





Key Recommendations

Auditors made recommendations to help mitigate risk arising from control weaknesses. Key recommendations are listed below. The Department must:

- Improve its payroll process to ensure it only includes applicable special payments in the regular rate of pay when calculating overtime pay.
- Ensure it only processes state active duty pay and entitlements in the amounts authorized for each mission.
- Continue to review each employee's job application and internal prior state employment form to ensure all prior state service is accounted for and properly recorded to ensure hazardous duty and longevity pay increases and leave accruals occur at the correct times.
- Improve its payroll processes to prevent incorrect salary payments.
- Ensure all required nondisclosure agreements and conflict of interest disclosures related to bids received and contracts awarded are documented in the contract file.
- Develop and maintain procurement planning documentation such as the needs assessment, acquisition plan, and cost estimate.
- Ensure the total value of a contract consists of the estimated dollar amount it may be obligated to pay over the contract's term including all executed/proposed amendments and all possible renewals, extensions, and options permitted in the contract.
- Maintain all solicitation responses marked with the date and time they were received and enhance procurement policies and procedures to ensure it conducts an administrative review on solicitation responses received.
- Ensure the evaluation committee members and contract developer perform a quality control review and maintain this review documentation as part of the contract file.
- Ensure all information obtained during vendor reference checks is documented in writing and placed in the procurement file.
- Ensure the contract manager or procurement director provides a written acknowledgement of compliance with the Department's Contract Management Guide and the State of Texas Procurement and Contract Management Guide.
- Design appropriate monitoring procedures for each contract it awards and document the outcomes of any risk assessments, site visits, monitoring checklists, or other monitoring activities conducted on each contract and retain the documentation in the procurement file.
- Report contract awards to the Legislative Budget Board and report completed contracts to the Vendor Performance Tracking System.



- Ensure it conducts all vendor compliance verifications before any purchase, contract award, extension and/or renewal and retains documentation of the verifications as part of its files.
- Ensure procurement staff advertise applicable purchase solicitations exceeding or expected to exceed \$25,000 on ESBD for the proper duration and ensure notices of awards are reported to ESBD in a timely manner.
- Ensure it maintains documentation for purchase and travel expenditures that clearly prove the payments are appropriate; ensure it develops detailed policies and procedures to inform staff of the minimum requirements and responsibilities - especially those relating to governor declared disasters.
- Ensure purchases are only classified as "exempt" when supported by an appropriate legal citation.
- Ensure payment information is submitted for processing and released in a timely manner to avoid incurring prompt payment interest.
- Enhance its internal controls to prevent and identify duplicate payments and reimbursements.
- Ensure payment cardholders reconcile the individual billing statement, transaction log, and vendor invoices/receipts, and submit this information for pre-payment review and approval in a timely manner.
- Ensure payment cardholders obtain the necessary pre-approvals for all payment card transactions in accordance with policy.
- Ensure travel expenditures do not exceed authorized rates or do not include excess amounts; if exceptions are necessary then sufficient reasons or justifications must be included with the travel documentation.
- Ensure staff performs and documents cost comparisons for different travel methods before making travel arrangements; more costly options must be justified and preapproved with any contributing factors and indirect cost savings documented.
- Ensure all instances of travel outside Texas (including travel to foreign countries) are approved by an authorized individual prior to travel date in accordance with state and agency policy.
- Ensure employees do not submit travel voucher forms that include expenses that have not yet occurred.
- Ensure all required fields on the Department's travel voucher are completed for all travel payments or reimbursements of business-related travel expenses.
- Ensure all travel reimbursements are properly examined before payment to ensure the correct employee is paid.



- Ensure assets, asset classifications, and asset values are entered accurately in the State Property Accounting (SPA) system in accordance with state rules and requirements.
- Ensure agency asset labels/tags cannot be easily removed or become detached; ensure the labels are highly visible and easily accessible.
- Ensure construction projects and their expenses are recorded correctly in the SPA system according to the stage of construction (in-progress vs. completed) in accordance with state rules and requirements.
- Adjust its credit card payment processes to take advantage of discounts/rebates and avoid the double penalty of lost rebates and statutory interest.
- Ensure all payees who request payment by direct deposit submit a completed, signed direct deposit authorization form with the international payment verification question answered, also ensure the forms are maintained according to record retention requirements.
- Ensure its method of processing third-party transactions separates each individual card charge, assigns the correct Comptroller object, and includes proper vendor/employee-level detail in accordance with state policies and procedures.
- Ensure compliance with the security revocation and signature card authority for approval requirements for terminated employees.
- Ensure no user gains access to any of the statewide financial systems before completing a Confidential Treatment of Information Acknowledgment form.
- Establish controls over expenditure processing that segregate each accounting task to the greatest extent possible.



Detailed Findings

Payroll Transactions

Auditors developed a sample totaling \$471,044.57 from a group of 40 employees involving 235 payroll transactions to ensure the Department 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.

Incorrect Overtime Pay Calculation

Auditors identified one transaction where the Department incorrectly calculated a non-exempt employee's overtime pay, resulting in an overpayment. The Department included the employee's benefit replacement pay (BRP) in the overtime pay calculation. Since the employee was not leveling, the maximum amount of BRP had already been paid out earlier in the year and no BRP was due nor paid in the month the overtime pay was calculated. According to the Department, this oversight occurred due to outdated policy information.

Leveling

State agencies determine if they will allow their BRP-eligible employees and judges to choose to have their BRP paid in equal installments over the course of a calendar year. This choice, called leveling, must be exercised before the beginning of each calendar year. See [Texas Payroll/Personnel Resources](#).

An employer that banks overtime hours and subsequently pays for those hours must use the employee's regular rate of pay at the time the overtime is calculated. Regular rate of pay includes any special payments, including longevity, hazardous duty pay, qualified bonus payments, and BRP only if payments are leveled. See [Texas Payroll/Personnel Resource - Non-Salary Payments - Overtime](#). For Centralized Accounting and Payroll/Personnel System (CAPPS) agencies, the CAPPS overtime calculation only considers additional pays in the overtime rate if they are paid in the month the overtime is earned/paid. Without clear determination of what special payments should be included in the regular rate of pay for the calculation of overtime pay, the Department runs the risk of paying overtime incorrectly.

Recommendation/Requirement

The Department should improve its payroll processes to prevent incorrect overtime pay calculations. Additionally, the Department should ensure only additional pays that were paid in the month the overtime is earned/paid are included in the overtime calculation. The Department should consider recovering the amount of the overpayment in accordance with [Texas Government Code, Chapter 666](#).



Department Response

After confirming the correct calculation method with CPA, our internal agency payroll processing documents were updated to reflect the correct calculation of the overtime rate for firefighters, ensuring only data from the most recent regular month payroll is included in the calculation.

An overpayment letter was prepared and sent to the employee requesting payback of the overpayment.

Overpayment of State Active Duty Per Diem

Auditors identified one employee who was overpaid state active duty (SAD) per diem. The Department paid the individual per diem for eight days when the employee's military order forms only reflected per diem due for four days. According to the Department, this occurred due to an administrative oversight.

[Texas Government Code, Section 437.001\(9\)](#) defines SAD as the performance of military or emergency service for this state at the call of the governor or the governor's designee. An individual on SAD status is eligible for pay and entitlements established by [Texas Government Code, Section 437.005](#).

Additionally, in accordance with [Texas Payroll/Personnel Resource – General Provisions – Required Documentation](#), agencies are required to maintain specific documentation to support the legality, propriety and fiscal responsibility of each payment made from agency's funds. The Comptroller's office may require the documentation during a post-payment audit, a pre-payment audit, or any other time.

Recommendation/Requirement

The Department should enhance its internal controls to ensure it properly reviews and reconciles the pay and entitlements an individual on state active duty has been authorized to be paid based on the mission stipulated in the military order.

Department Response

Our internal agency process has been updated and requires all components of the Texas Military Forces (Army, Air, and State Guard) to submit state active duty pay requests through the Joint Personnel Office (J1). It is the responsibility of the J1 office to review all requests for state active duty pay for compliance and eligibility for payment prior to sending the request to OSA for processing.

An overpayment letter was prepared and sent to the employee requesting payback of the State Active Duty Per Diem overpayment.



Incorrect Longevity/Hazardous Duty Payment Amounts

Auditors identified one instance in the sample where the Department did not timely verify hazardous duty status for prior state employment. The employee disclosed prior employment with another agency on the job application and on the Department's verification of prior state employment form at the time of hire. Although the Department obtained the prior state service verification during the hiring and onboarding process, the verification did not include hazardous duty eligibility information. The Department obtained a new verification from the other agency five years later confirming the position was a hazardous duty eligible position.

Although the Department tried to make the applicable adjustments upon receipt of the form, it did not make corrections/give hazardous duty pay credit for two months and failed to freeze longevity pay once the individual became eligible for hazardous duty pay. This oversight resulted in an overpayment of longevity pay and an underpayment of hazardous duty pay. The Department stated this occurred due to administrative oversight.

Longevity pay is an entitlement based on total state service; it is paid to eligible employees each month in addition to base salary. See [Texas Payroll/Personnel Resource – Non-Salary Payments – Longevity Pay](#).

Lifetime service credit reflects an employee's entire time of state service and is used to determine the amount of longevity pay an individual may be eligible to receive. See [Texas Payroll/Personnel Resource – General Provisions – Lifetime Service Credit](#).

Certain state employees perform hazardous duties and are eligible for hazardous duty pay. An employee who receives both hazardous duty and longevity pay continues to receive longevity pay based on the years worked in a non-hazardous duty position. See [Texas Payroll/Personnel Resource – Agency Specific Provisions – Hazardous Duty Pay](#).

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 service, the agency must confirm and properly record the amount of lifetime service credit for longevity and hazardous duty pay purposes.

Recommendation/Requirement

The Department must continue to research and verify prior state service time for its employees and confirm whether the prior state service was in a hazardous duty pay eligible position. In addition, the Department must ensure all prior state service verifications are properly documented, accurate, and maintained in the personnel files to mitigate the risk of paying longevity and hazardous duty payment amounts incorrectly. The Department must also compensate the employee for the underpaid amount.



Department Response

The error noted by the auditor has been corrected. The employee's records have been updated and pay adjustments have been processed. Additionally, our internal agency process has been updated to ensure new employees complete a prior state service/prior hazardous duty form during in-processing. The OSA HR Staffing team is responsible for reviewing the employees form and submitting the request for verification to the applicable agency(ies). Upon receipt of verification, CAPPs is updated.

Incorrect Salary Payment Amount

In a report generated outside of the sample, auditors identified one employee who received a salary overpayment of \$817.85. The employee was hired into a different employee class effective Jan. 11, 2021, but was paid the full month salary since the hire date did not get entered into the system until after payroll processed. The employee termed March 2021. According to the Department, this occurred due to an administrative oversight and debt notification will be sent to the employee to recover the funds.

The amount of compensation paid to an employee for working part of a month is equal to the employee's equivalent hourly rate of pay for that month multiplied by the number of scheduled work hours during the month, less any leave without pay hours. Without timely reporting of personnel action effective dates, the Department runs the risk of paying incorrect salary payment amounts. See [Texas Payroll/Personnel Resource – General Provisions – Partial Payment Calculations](#).

Recommendation/Requirement

The Department should improve its payroll processes to prevent incorrect salary payments. The Department should consider recovering the amount of the overpayment in accordance with [Texas Government Code, Chapter 666](#).

Department Response

The error noted by the auditor has been corrected. The employee's records have been updated and an overpayment memo has been sent requesting payback. Additionally, internal processes have been implemented to ensure SPRS updates are completed for any employee moving from a State Active Duty position to a full-time employee position (or vice versa). Also, we have implemented payroll auditing procedures to ensure all mid-month actions (new hire, termination, etc.) are calculated correctly prior to finalizing the payroll.



Purchase/Procurement and Contract Transactions

To ensure the Department complied with the GAA, [eXpendit \(FPP I.005\)](#), [State of Texas Procurement and Contract Management Guide](#), and pertinent statutes, auditors:

- Developed a sample of 45 purchase transactions totaling \$4,224,149.31 and 28 payment card transactions totaling \$47,160.22, and
- Selected two contracts with values of \$3,000,000 and \$6,141,320.60 along with a sample of eight payments from these two contracts totaling \$1,748,481.69.

Audit tests revealed a total of 18 exceptions for this group.

The following table summarizes the exceptions for the two audited contracts based on the applicable phase of the procurement cycle.

Contract	Amount	Type of Service	Procurement Cycle				
			Planning	Procurement Method Determination	Vendor Selection	Contract Formation/Award	Contract Management
Contract A	\$3,000,000	On call electrical maintenance and repair services	<ul style="list-style-type: none"> • Missing contract development documentation. • Incorrect contract valuation. 	No exceptions	<ul style="list-style-type: none"> • Administrative review of respondent solicitation not conducted/ missing record of solicitation receipts. • Missing/ late conflict of interest disclosures. • Missing proof of vendor compliance verifications. • Missing documentation – reference check. • Missing quality control review documentation. 	Missing written Acknowledgement of Compliance with Contract and Procurement Guide.	<ul style="list-style-type: none"> • Lack of contract monitoring and oversight. • Late reporting to the Legislative Budget Board.
Contract B	\$6,141,321	Major renovation of an existing facility	No exceptions	Purchases incorrectly classified as exempt.	No exceptions	No exceptions	No exceptions



Missing/Late Conflict of Interest Disclosures

Auditors identified one contract missing the required conflict of interest disclosure forms for five of the six staff members involved in the procurement. During the review of the procurement file, the sixth employee's conflict of interest disclosure form was signed after the contract was signed. The Department stated it failed to properly document this issue in the procurement file.

Employees of agencies performing purchasing functions under Statewide Procurement Division (SPD) delegated authority are required to adhere to the same ethical standards required of Comptroller's office employees. Contract developers and purchasers certify their compliance with the conflict of interest prohibition described in Texas Government Code, Section 2155.003 by completing a Non-Disclosure and Conflict of Interest Certification. Contract developers and purchasers must sign the certification prior to engaging in any purchasing activity. In addition, employees have a responsibility to promptly disclose any actual or potential conflict of interest that occurs at any time during the procurement process. It is best practice for the Non-Disclosure and Conflict of Interest Certification for contract developers and purchasers to be signed on a regular basis. The timing of when the certification must be signed on a periodic basis (e.g., every fiscal year, calendar year, employment date anniversary) may vary according to each agency's policy. See [Texas Government Code, Section 2155.003](#), [34 Texas Administrative Code Section 20.157](#), and [State of Texas Procurement and Contract Management Guide - Required Disclosure Statements](#).

Recommendation/Requirement

The Department must ensure all required procurement related nondisclosure agreements and conflict of interest disclosures are documented in the contract file with respect to any contract with a private vendor or bid for the purchase of goods or services from a private vendor.

Department Response

The Purchase Category Code (PCC) checklists have been updated and procedures have been established that require the forms to be included in each contract file. These checklists ensure that the Contract Specialist(s) do not overlook any required forms, including procurement related nondisclosure agreements and conflict of interest disclosure documents.

Missing Contract Development Documentation

Auditors identified one contract where the Department lacked sufficient planning documentation, such as needs assessment, acquisition plan, and cost estimate. The Department stated it failed to properly document this issue in the procurement file.



The Department must develop a needs assessment, acquisition plan, and cost estimate to ensure each procurement is solicited, negotiated, executed, and managed to deliver the best value to the state. The needs assessment must contain sufficient detail to identify the key business requirements. The acquisition plan ensures the contract requirements are satisfied, the goods and services are delivered in a timely manner, and the financial interests of the Department are protected. The cost estimate must be developed in good faith as it will be used not only in the selection of the appropriate procurement method, but also for compliance with statutory requirements that may apply to the purchase based on contract value, funding source or expenditure restrictions and prohibitions. See [State of Texas Procurement and Contract Management Guide](#) – Procurement Planning and Contract Management Sections.

Recommendation/Requirement

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

Department Response

TMD Procurement Team meets monthly to train on new/updated required forms. All Contract Specialists on the Procurement Team have been trained to utilize Procurement Planning documentation. To ensure no required forms are missing, management and peer reviews are performed on all contract documents prior to sending the contract to the awarded contractor.

Incorrect Contract Valuation

One contract's calculated value at the time of award did not accurately reflect the maximum potential value of the complete contract obligation. During the course of the contract, the Department discovered that the original estimated value of \$200,000 submitted to SPD's Procurement Oversight & Delegation (POD) portal for delegated authority for services did not have the correct contract valuation. The Department submitted a second delegated authority for services to POD to increase the contract value amount from \$200,000 to \$750,000, but then realized that the \$750,000 was not inclusive of three contract renewal options so a third delegated authority for services was submitted to POD to increase the contract value amount to \$3,000,000. The Department stated that it failed to properly document this issue in the procurement file.

Accurate contract valuation is an important part of the procurement process since it can affect other aspects of the process. When the maximum contract value is incorrectly calculated, it could:



- Lead to statutory requirements not being met based on contract value thresholds.
- Provide incomplete information to the public in transparency spending reports.
- Lead to lost staff time and/or process inefficiencies by forcing a purchase to be re-solicited sooner than expected.
- Cause the Department to have a budget shortfall in paying the contract obligations.
- Lead to a contract not being awarded based on best value if the maximum contract valuation was not considered in the vendor evaluation scores.

Contract value is not limited to the cost for the initial term but is determined by the total value of the contract over its term as well as any amendments, modifications, renewals, or extensions. See the [State of Texas Procurement and Contract Management Guide – Determining Contract Value](#) and [34 Texas Administrative Code Section 20.25\(b\)\(13\)](#).

Recommendation/Requirement

The Department must ensure the total value of a contract includes the estimated dollar amount it may be obligated to pay over the contract's term as well as all executed/proposed amendments and all possible renewals, extensions, and options permitted in the contract before awarding a contract.

Department Response

Procedures have been implemented to ensure the contract value is properly estimated during the procurement planning process, including a cost estimate for the entire duration of the contract. This assessment includes any specified contract renewal periods to ensure the potential contract value is stated accurately at the time of award.

TMD Procurement utilizes management and peer review checklists to ensure all applicable amendments, renewals, extensions, and options are documented in the contract file. This checklist also includes checking the total contract value.

In the event the contract value is determine to be incorrect, a Purchase Order Change Notice (POCN) is issued to ensure the contract file is properly documented. The POCN is reviewed and approved by Procurement management.

Administrative Review of Respondent Solicitation Not Conducted/Missing Record of Solicitation Receipts

Auditors identified one contract where the Department failed to document whether it conducted an administrative review of the solicitation responses after they were opened and recorded. The Department stated that it failed to properly document this issue in the procurement file.

The administrative review is conducted on a "pass/fail" basis. Consultation with legal counsel may be necessary to determine whether a response is responsive to the solicitation requirements. See [State of Texas Procurement and Contract Management Guide – Administrative Review of Responses](#).



The administrative review includes an examination of each response to verify the minimum vendor qualifications are satisfied, and all required forms and documents are included in the solicitation response.

Auditors also identified one contract where the Department did not maintain the vendor solicitation responses marked with the date and time displaying when they were received. As a result, auditors could not verify whether the solicitation responses were received in a timely manner.

To ensure fairness to all respondents, no submitted responses should be opened or reviewed before the due date and time has passed; an agency may confirm that a sealed submission, faxed document or email(s) has been received. See the [State of Texas Procurement and Contract Management Guide](#) – Solicitation – Receipt and Control of Responses.

Recommendation/Requirement

The Department must enhance its procurement policies and procedures to ensure an administrative review is conducted on solicitation responses received. The Department should use a checklist to document the results of the administrative review. A sample of an administrative review checklist is provided in the [State of Texas Procurement and Contract Management Guide](#) – Appendix 19. In addition, the Department should maintain all solicitation responses marked with the date and time displaying when they were received as part of the procurement file.

Department Response

TMD Procurement Team meets monthly to train on new/updated required forms. All Contract Specialists on the Procurement Team have been trained to utilize the administrative checklist for all issued solicitations. Solicitations are submitted to a procurement designated inbox and are not opened until the prescribed date and time outlined in the solicitation document.

Missing Quality Control Review Documentation

Auditors identified one contract where the Department failed to provide documentation that a quality control review was performed on the master evaluation score sheet. The Department stated it failed to properly document this issue in the procurement file.

Once vendor responses for a solicitation have been evaluated by the committee, each committee member should review the master score sheet to verify the accuracy of the scoring. It is important to ensure that raw data is accurately transcribed into the mathematical formulas, and that the mathematical formulas are properly loaded into electronic spreadsheets/workbooks when such electronic aids are used. The contract developer will prepare, sign, and date the master scoring matrix, and recommend how to proceed. See [State of Texas Procurement and Contract Management Guide](#) – Evaluation Committee Recommendation.



Recommendation/Requirement

The Department must follow procurement procedures and update its policies to require evaluation committee members and the contract developer to perform a quality control review. The Department should maintain the quality control review documentation as part of the contract file.

Department Response

The Procurement Office has developed an evaluation committee guide to be used by all TMD procurement programs to ensure proper quality control reviews are conducted. This guide was reviewed and approved by the TMD General Counsel, and requires review of the master evaluation sheet by the committee.

All contracts are required to be reviewed by procurement management prior to issuing the contract. The management reviews require a procurement file checklist review to ensure no documentation is missing from the contract file. Also, procurement staff performs monthly audits on all contract files to maintain quality control.

Missing Contract Documentation – Reference Check

Auditors could not verify whether the Department conducted the vendor reference checks in one contract. The Department could not locate documentation of the reference checks or documentation of its determination not to conduct reference checks. The Department stated it failed to properly document this issue in the procurement file.

The contract developer may conduct the reference checks or authorize a subcommittee of the evaluation committee to conduct reference check activities. The list of reference check questions must be prepared prior to the solicitation closing date. If reference checks will not be conducted by the agency, this determination should be documented and placed in the procurement file. See [*State of Texas Procurement and Contract Management Guide*](#) – Evaluation – Evaluation Committee Process – Evaluation of Responses – Reference Check.

Recommendation/Requirement

All information obtained during the reference checks must be documented in writing and placed in the procurement file. If reference checks will not be conducted, this determination should be documented and placed in the procurement file. A sample reference check form is provided in the [*State of Texas Procurement and Contract Management Guide*](#) – Appendix 22.



Department Response

TMD Procurement Team meets monthly to train on new/updated required forms. All Contract Specialists on the Procurement Team have been trained to utilize the Administrative Checklist to ensure all requirements outlined in the solicitation have been met. If referenced checks are not required the Administrative Checklist must be properly documented. To ensure no required forms are missing, management and peer reviews are performed on all contracts issued to the contractor.

Missing Written Acknowledgement of Compliance with Procurement and Contract Management Guide

Auditors identified one contract where the contract manager or procurement director did not acknowledge in writing that the Department complied with the State of Texas Procurement and Contract Management Guide. The Department stated it failed to properly document this issue in the procurement file.

According to the [State of Texas Procurement and Contract Management Guide](#) – Agency Verification of Use of Best Value Standards, the contract manager or procurement director must provide a written acknowledgement of compliance with the Department’s Contract Management Guide and the State of Texas Procurement and Contract Management Guide.

Recommendation/Requirement

The Department should ensure that the contract manager or procurement director provides a written acknowledgement of compliance with its Contract Management Guide and the State of Texas Procurement and Contract Management Guide for all future contract purchases.

Department Response

Procurement has created a memorandum of record to document and acknowledge compliance with the contract management guide.

Lack of Contract Monitoring and Oversight

Auditors noted one contract that did not have a contract monitoring and oversight mechanism in place. The Department could not provide contract documentation to verify the contract was monitored. The Department stated it failed to properly document this issue in the procurement file.

The lack of contract monitoring, and oversight mechanisms greatly increases the risk that the Department will:



- Not receive contracted services.
- Pay for services not received.
- Fail to carry out its statutory responsibilities.

Monitoring the contractor's performance is a key function of proper contract administration to ensure the contractor performs all contract obligations and to ensure the agency is aware of and addresses any developing problems. See [State of Texas Procurement and Contract Management Guide](#) – Contract Management – Monitoring Methods.

Recommendation/Requirement

The Department should design appropriate monitoring procedures for each contract (or each type of contract) it awards. The Department should document the outcomes of any risk assessments, site visits, monitoring checklists, or other monitoring activities conducted and retain the documentation in the procurement file.

Department Response

The procurement team conducts monthly audits on all contract files to ensure all required documentation is included in the files. Management and peer reviews are also another method to ensure the outcomes of any risk assessments, site visits, and/or other monitoring activities are documented.

Missing/Late Reporting to the Legislative Budget Board

Auditors identified errors in the Department's reporting to the Legislative Budget Board (LBB) Contract Database for one of the contracts tested and for two contracts associated with transactions in the purchase sample. One contract was not reported to LBB, another contract was reported late, and renewals for the third contract were reported late. The Department stated it failed to properly document these issues in the procurement file and failed to follow the LBB procedures.

[General Appropriations Act \(GAA\), Reporting Requirements, Article IX, Section 7.04](#), requires agencies that receive an appropriation under the GAA to report contracts with values over \$50,000 to LBB, regardless of the funding source or method of finance associated with the expenditure, even if only non-appropriated funds will be expended. Reporting to LBB shall occur before the 30th calendar day after awarding a contract or granting an amendment, modification, renewal, or extension. See the [LBB Contract Reporting Guidelines and Requirements](#).



Recommendation/Requirement

The Department must report all applicable contracts and contract amendments to LBB to comply with [GAA, Article IX, Section 7.04](#), and [LBB Contract Reporting Guidelines and Requirements](#).

Department Response

Procurement checklists are utilized to ensure Legislative Budget Board (LBB) reporting requirement compliance. Procurement staff conducts monthly audits on all contracts to ensure all required documentation are uploaded into the LBB database.

Failure to Report to the Vendor Performance Tracking System

Auditors identified eight contracts associated with transactions in the purchase sample over \$25,000 that were not reported to the Vendor Performance Tracking System (VPTS) as required. According to the Department, these errors resulted from failure to properly document this issue in the file and/or failure to perform the task due to COVID-19, personnel shortage, and workload issues.

SPD administers VPTS for use by all ordering agencies per [34 Texas Administrative Code Section 20.115](#). VPTS provides state agencies with a comprehensive tool to evaluate vendor performance and reduce risk in awarding contracts and relies on agency participation to gather information on vendor performance. A vendor's performance must be reported to VPTS once a contract valued at more than \$25,000 is completed or otherwise terminated; more frequent reviews are required if the value of the contract exceeds \$5 million. See [State of Texas Procurement and Contract Management Guide](#) – Vendor Performance Reporting.

Recommendation/Requirement

Department management must ensure procurement staff assess and report vendor performance to VPTS once a contract with a total value exceeding \$25,000 is completed or otherwise terminated. Additional reporting intervals must be met when the contract value exceeds \$5 million.

In addition, staff training programs and related documentation should include instructions on reporting to VPTS. Using a procurement checklist could help ensure all requirements are completed. A template checklist is available in the [State of Texas Procurement and Contract Management Guide](#).

Department Response

The procurement team conducts monthly audits on all contract files to ensure all required Vendor Performance Reports are uploaded into the Comptroller of Public Accounts (CPA) VPTS database.



Missing Proof of Vendor Compliance Verifications

Auditors identified one transaction from the purchase sample, three transactions from the payment card sample, one transaction from the travel card sample, and one contract containing errors related to the Department's duty to perform vendor compliance verifications, as applicable. The Department must provide evidence, such as a screen print, showing each verification was performed. When vendors are not verified prior to purchase or contract award, there is a risk of conducting business with unauthorized vendors or issuing payments to vendors who owe money to the state.

Warrant Hold Check

The Department was unable to provide evidence it conducted a warrant hold check for three payment card purchases and one travel card purchase (each over \$500).

[Texas Government Code, Section 2252.903](#), requires agencies to verify a person's warrant hold status if payments under a contract will be made with local funds or involve payment card purchases over \$500.

Agencies must not proceed with purchases made with local funds or payment card purchases over \$500 until the warrant hold has been released, unless the contract requires the agency's payments under the contract to be applied directly toward eliminating the person's debt or delinquency, regardless of when it arises. See [eXpendit – Restricted Expenditures – Persons Indebted to the State](#).

System for Award Management Check and Office of Foreign Asset Control Check

The Department did not provide evidence it conducted System for Award Management (SAM) and Office of Foreign Asset Control (OFAC) checks for one purchase transaction. Additionally, the Department conducted a delayed SAM/OFAC check for one contract and did not conduct the SAM/OFAC checks for that contract's renewals.

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, OFAC's master list of specially designated nationals and blocked persons (with limited exceptions). See [Executive Order 13224](#).

Debarment Check

The Department did not search the Debarred Vendor List for one purchase transaction and one contract before procuring the goods or services. The contract developer must check the [Debarred Vendor List](#) posted on the Comptroller's office website to ensure the vendor has not been debarred by SPD. An agency must not award a contract to a debarred vendor. SPD may bar a vendor from participating in state contracts, including any contracts where SPD delegated the purchasing authority to an agency, due to



substandard performance under a contract. See [Texas Government Code, Section 2155.077](#), and [State of Texas Procurement and Contracts Management Guide – Vendor Compliance Verifications](#).

Iran, Sudan, and Foreign Terrorist Organization Check

The Department was unable to provide proof staff conducted the Iran, Sudan, and foreign terrorist organization checks for one purchase transaction. Also, the check for one contract was conducted after the contract was awarded. According to the Department, this error was due to an internal oversight. Agencies may not contract with a company doing business with Iran, Sudan, or a foreign terrorist organization. See [Texas Government Code, Sections 2252.152](#). Each agency must check the divestment lists to determine if the potential awardee is in violation of this requirement. See [State of Texas Procurement and Contracts Management Guide – Vendor Compliance Verifications](#). The Texas Safekeeping Trust Company maintains the divestment lists and posts them to the [Comptroller's Divestment Statute Lists website](#). If the business is in violation, the contract may not be awarded to that vendor.

Boycott Israel Check

The Department was unable to provide proof staff conducted the boycott Israel check for one purchase transaction. Also, the check for one contract was conducted after the contract was awarded. 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. See [Texas Government Code, Section 2271.002](#). Additionally, before award, the agency must check the divestment lists posted on the Comptroller's Divestment Statute List website; if the potential awardee is on the list, the contract may not be awarded to that vendor. See [State of Texas Procurement and Contracts Management Guide – Vendor Compliance Verifications](#).

Recommendation/Requirement

The Department must conduct all vendor compliance verifications before any purchase, contract award, extension, and/or renewal, and must retain dated results from the specified website in the procurement file as evidence. Using a procurement checklist could help ensure completion of all requirements.

Department Response

An administrative checklist is utilized for Vendor compliance verification. The procurement staff conducts monthly audits on all contract files to ensure all required vendor compliance documentation is included in the contract file. Peer reviews and checklists are utilized to ensure vendor compliance verifications are not missing from contract files.



Failure to Post to Electronic State Business Daily

Auditors noted two purchase transactions, each exceeding \$25,000, were not publicly posted to the Electronic State Business Daily (ESBD) online solicitation and award application. One purchase was for professional services procured through an Indefinite Delivery/Indefinite Quantity (IDIQ) contract; however, there was no evidence the related IDIQ's solicitation was advertised on ESBD. A second purchase did not have the notice of award posted to ESBD. When solicitations are not publicly posted on ESBD prior to vendor selection, competition may be limited, agencies may not be aware if prices are fair and reasonable, there may be an appearance of unfairness in vendor selection, and the contract may ultimately be void. When awards are not publicly posted, purchasing transparency may also be reduced.

All purchases, solicitations and/or notices of award expected to exceed \$25,000 must be posted on ESBD regardless of the source of funds used for the contract. See [State of Texas Procurement and Contract Management Guide](#) – Solicitation – Advertisement.

Additionally, Section 3.2 of the Department's Contract Management Guide v1.18, states that solicitations for professional or consulting service contracts anticipated to exceed \$25,000 must also be posted on ESBD. The posting may be either the entire solicitation or a notice of solicitation.

After a contract is awarded, a notification of award must be posted timely to ESBD if the contract is expected to exceed \$25,000. The contract developer must maintain proof of the ESBD posting in the procurement file. See [State of Texas Procurement and Contract Management Guide](#) – Contract & Amendment Notifications

Recommendation/Requirement

For applicable purchases exceeding or expected to exceed a total value of \$25,000, the Department must ensure it posts solicitations on ESBD for the proper duration and ensure that notices of awards are reported to ESBD in a timely manner. Using a procurement checklist could help ensure completion of all requirements.

Department Response

An administrative checklist is utilized to ensure that all solicitations over \$25,000 are posted to the Electronic State Business Daily (ESBD). The procurement staff conducts monthly audits on all contract files to ensure all required documentation is included in the contract file.

Missing Documentation to Adequately Support Payments

Auditors found a number of instances where Department staff failed to maintain proper documentation to support payments and/or the purpose of the payments. This oversight was evident in two transactions in the purchase sample; 15 transactions in the payment card sample; five in the travel sample; and nine in the travel card sample.



Missing items included but were not limited to:

- Three direct billed travel payments did not have documentation to support the payments such as the related employee travel voucher, documentation to support the business purpose, detailed flight receipts from the travel service provider, etc.
- Six transactions (one travel card, two payment card, and three travel) did not have detailed information to fully support the payments – there was no/limited information on the invoice or other documentation that specified what the purchase/travel was for and/or how it related to official state business. Invoices/receipts were missing detailed goods/services purchased or had no/limited vendor information listed.
- Four transactions (one purchase and three payment card) did not have invoices to support the payments.
- One large payment to the fuel card provider with 3,000+ individual fuel charges during the monthly billing period only included receipts for 20 of the charges and no evidence showing a verification or reconciliation of the 3,000+ charges was performed.
- Two travel expenses had amounts listed in a foreign currency and no exchange rate was included in the supporting documentation. One of these expenses also had a taxi expense that was not itemized by the date/fare charged for each trip.
- Three travel card transactions did not have documentation to prove a vehicle maintenance/service charge was for a state-owned vehicle.
- Thirteen payment card charges did not have evidence confirming an agency employee received the goods/services.

Staff failed to obtain and/or maintain documentation to prove the Department's payments were legal and fiscally responsible. Some of these transactions were completed prior to implementation of the Department's new travel authorization form.

In addition, two high dollar travel card statements with several hundred charges in each of the monthly billing cycles included charges for rental cars, rental car tolls, and hotel lodging. Many receipts from the hundreds of credit card charges were missing sufficient details for auditors to determine whether the charges were appropriate. Many receipts from the hundreds of charges contained amounts that probably should not have been paid or were questionable payments. Errors related to supporting documentation for these payments included but were not limited to:

- Many large charges were missing receipts from the vendors, which were national rental car providers and hotel chains from which actual receipts could have been obtained.
- Rental car tolls with no official invoice/receipt from the vendor – only a listing of charges and dates.



- Some lodging receipts were a single page from multi-page summary statements for multiple rooms with no room detail/itemization to support the charge for each room.
- Some lodging receipts had a line-item charge listed as “Other Revenue” or “Accommodation”, but no additional details provided to identify the reason for the charge.
- Receipts were not provided for 135 of the 600+ charges on one of the credit card statements.
- Some rental car receipts included taxes/charges that should not have been charged under the state rental car contract.

According to the Department, it has been in State Active-Duty (SAD) disaster response mode continuously since March 2020 due to the COVID-19 pandemic and civil disturbance missions to the southern border (Operation Lone Star). These SAD missions have required deployment of large numbers of service members and the use of credit cards for food, lodging, and transportation due to the need to expedite these essential services. Due to the volume of activities and excessive turnover, certain processes have been missed.

When supporting documentation does not include detailed purchase/travel expense information, it is difficult for Department staff and management to ensure payments are appropriate and accurate. Additionally, auditors could not verify whether the:

- Payments were appropriate and for official state business purposes.
- Correct comptroller object and appropriation year were used
- Correct vendor was paid.

To support the legality and fiscal responsibility of payments for purchased goods and services, agencies must keep and provide sufficient documentation so that staff processing the payments and 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. See [34 Texas Administrative Code Section 5.51](#) for examples of required documentation.

Additionally, according to [34 Texas Administrative Code Section 5.57](#), an agency shall keep in its files any receipt that a vendor issues to the agency for a payment card purchase. The receipt must contain a description of the good or service purchased that is sufficient to support the expenditure object code used by the agency.

Section 2.1.3 of the Department’s Procurement Payment Card Procedures also describes related cardholder responsibilities such as obtaining itemized receipts, cardholder signatures, and verifying receipt of services.



According to the [State of Texas Procurement and Contract Management Guide – Procurement Method – Texas Disaster Act of 1975](#), documentation for a purchase made under a governor declared disaster must contain, at a minimum, a copy of the disaster declaration, documentation to support the purchase, receipt of goods or services, and payment approval.

An agency may pay for a travel expense only if the purpose of the travel clearly involves official state business and is consistent with the agency's legal authority. See [texttravel – Official State Business and Documentation Requirements – General Provisions – Official State Business](#).

For travel or other expense converted from a foreign currency, see [texttravel – Documentation Requirements – Miscellaneous Provisions – Travel or Other Expenses Incurred in a Foreign Currency](#).

For a reimbursement of travel by bus, subway, other mode of mass transit, taxi, limousine or network transportation drive, see [texttravel – Transportation – Mass Transit, Taxi or Limousine](#).

Although a governor's disaster declaration may excuse an agency from state purchasing statutes or administrative rules to the extent those rules would impede an agency's emergency response that is necessary to cope with the declared disaster, the declaration is not a blanket authorization to forego all purchasing rules.

Recommendation/Requirement

The Department must ensure it maintains purchase and travel expenditure documentation to prove payments are appropriate and in compliance with regulations including, but not limited to:

- Detailed vendor-provided invoices.
- Documented business purposes.
- Confirmations of goods/services received.
- Other applicable required details such as exchange rates and expense itemizations.

Supporting documentation for purchase and travel transactions must be thoroughly examined before payment to ensure all charges are appropriate and in compliance with all applicable rules and regulations. Memoranda from an employee should not be accepted in lieu of itemized receipts from vendors.

In addition, staff training programs and related materials should include instructions on the required documentation to maintain to adequately support purchase and travel transactions. Detailed policies and procedures should be developed to inform staff of the minimum requirements and responsibilities for purchases related to governor declared disasters, especially when there are large numbers of service members



involved and there is a need to expedite the provision of essential services such as for food, lodging, and transportation. Department policies and procedures should also include a process to document the rationale and approval to waive the completion of purchasing rules/requirements that Department management determines would prevent, hinder, or delay necessary action in coping with a disaster.

Department Response

Texas Military Department will create a checklist for credit card purchase payments and vendor purchase payments that will ensure adequate documentation is received to process payments. The Accounting team will be re-trained on proper documentation to include specific deficiencies raised by the auditors (inability to verify and/or identify purpose, accuracy, coding). Additionally, Accounts Payable will work with the training team to develop an educational training for the agency. This training will identify roles and responsibilities for employees and staff making purchases, using credit cards and processing payments.

Purchases Incorrectly Classified as Exempt

Auditors noted six purchase transactions and one contract were incorrectly classified as an exempt purchase (i.e., not within SPD purchasing authority, exempt from competitive bidding requirements, and/or required by statute to be procured through a specific purchasing method) when in actuality they were not exempt. Since the Department considered these purchases/contract to be exempt, staff subsequently coded the payment vouchers as document type 9, which requires a blank or 0 (zero) purchase category code (PCC).

For four of the seven purchases/contracts, the Department has been operating under the belief that the Texas Adjutant General is delegated acquisition authority for construction by Texas Government Code, Section 437.054, and in turn this qualifies the purchases to be exempt under Texas Government Code, Section 2166.004. Although Texas Government Code, Section 437.054, provides authority for the Department to perform construction independent of the Texas Facilities Commission, it does not provide authority for procurement or an exemption from the Comptroller's procurement authority. These purchases should have been coded as document type 2 with PCC S (purchase of services greater than \$25,000). Given the conflicting opinions about whether the Department is exempt from SPD oversight for these purchases, the Department is seeking an opinion from the Attorney General's office.

For two of the seven purchases/contracts, the Department has been operating under the belief that purchases under a governor disaster declaration (Texas Government Code, Section 418.016) are exempt. Although a disaster declaration may excuse an agency from purchasing laws to the extent those laws would impede an agency's emergency response necessary to protect life or property threatened by the declared disaster, the purchases were made under a Department of Information Resources (DIR) contract and under a state managed term contract that do not appear to impede the



disaster response. If any requirements and document collection related to the applicable PCC need to be skipped, then that need should be documented along with the agency staff member who approved the waiver. Purchases made under DIR contracts should be coded as document type 2 with PCC I (purchase, including IT maintenance service contracts from DIR contracts) and purchases made under the state's Voyager Fuel Card contract should be document type 2 with PCC B (State of Texas retail fuel card purchase).

Auditors determined one of the seven purchases/contracts failed to provide a legal citation for the exemption claim. Without an acceptable exemption, the purchase should have been coded as document type 2 and since the type of purchase is offered under a DIR contract, it should have been PCC I (purchase, including IT maintenance service contracts from DIR contracts).

When purchases or contracts are incorrectly considered to be exempt, procurement staff may not perform the required steps in the procurement process for the specific purchase/contract. Two of the seven items the Department incorrectly considered to be exempt were non-delegated purchases of services that exceeded the \$100,000 threshold and were not exempt from the Comptroller's authority. The Department failed to obtain a delegation from SPD to move forward with the purchase without additional oversight.

Exempt document type 9 purchases refer to purchases of certain goods and services that are not within SPD purchasing authority, exempt from competitive bidding requirements, or required by statute to be procured through a specific purchasing method. The legal citation applicable to the purchase must be listed on the purchase documentation. See [State of Texas Procurement and Contract Management Guide](#) Appendices 31 and 32.

Purchases not deemed exempt must follow all requirements for the type of purchase made. The Post-Payment & Procurement Review Agency Document Checklist in Appendix 32 of the [State of Texas Procurement and Contract Management Guide](#) is a non-exhaustive list of steps and documentation to be included in the procurement file.

For non-delegated service purchases with an estimated contract value of more than \$100,000, the agency must submit a procurement-specific delegation request and its solicitation to SPD through the Procurement Oversight and Delegation portal. If the delegation request is denied, SPD will procure the services on behalf of the agency. See [State of Texas Procurement and Contract Management Guide](#) – SPD Review and Delegation Process.

Recommendation/Requirement

The Department must ensure purchases are only classified as exempt (coded as document type 9 in USAS) when supported by an appropriate legal citation. The Department should consult with SPD to confirm the accuracy and appropriateness of any potential purchasing exemptions and document the exemptions process in the Department policies and procedures.



Department Response

All Document Type 9 Purchase Orders are required to be reviewed by management to ensure accuracy of the PCC type.

There are conflicting opinions whether TMD is exempt for Statewide Procurement Division (SPD) Oversight for Construction Projects. TMD is seeking an opinion from the Attorney General's Office to clarify this procurement matter. Pending resolution TMD is complying with the State of Texas Procurement and Contract Management Guide (i.e., agency is not exempt from SPD delegation authority).

Prompt Payment and Payment Scheduling Errors

In the audit samples, auditors identified 12 purchase, 19 payment card, and 11 travel card transactions that were paid late but interest was either not paid to the vendors or the amount of interest paid was incorrect. During the audit period, the Department paid vendors \$29,185.68 in prompt payment interest.

Reasons for the purchase transaction errors were attributed to accountant errors for not:

- Maintaining evidence that showed when an invoice was received.
- Using the last day of service.
- Using the date vendors email the invoice.
- Scheduling correctly due to a weekend.

For the 12 purchase transactions, prompt payment interest of \$4,077.79 was unpaid and payments were made 36 days late on average, with one paid 170 days late.

The payment card transaction errors were due to using the date the Department received the hard copy credit card statement in the mail instead of using the date the statements were sent electronically by the credit card provider. According to the state contract, the statements are sent electronically and are available to agencies on the third of each month. Although most of these transactions did pay some interest, it was not the full amount owed for the additional days payment was late. For the 19 payment card transactions, prompt payment interest of \$52.76 was underpaid, being paid 92 days late on average, with one paid 196 days late.

The travel card errors were due to the Department using the date the individual statement was submitted for payment instead of the master that cuts on the 4th of the month. For the 11 travel card transactions, prompt payment interest of \$7,678.56 was unpaid and payments were made 14 days late on average, with one paid 59 days late.

In addition, from a report outside of the audit samples, auditors noted that many payments to vendors were coded with a user-entered Interest Control (IC) flag of 'A' and an Interest Control Reason Code (ICRC) of 'AI,' which is used for "Automation Issues."



This coding resulted in payment delays and forcing interest to be paid without having the full knowledge whether the issue may or may not be resolved by the original time the payment was scheduled to be processed. Instead, the IC should have been left as the system default with the original payment date allowing USAS to determine resolution. If the issue was resolved, no interest needs to be paid. If the issue was not resolved and the payment was delayed, USAS would calculate and pay interest.

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

- Agency receives the goods under the contract.
- Performance of the service under the contract is completed.
- Agency 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](#).

Recommendation/Requirement

The Department must review its procedures to ensure it both submits payment information for processing and releases payments in a timely manner to avoid incurring prompt payment interest. In addition, the Department must enter accurate due dates to ensure that any interest due to vendors is paid correctly. Agencies are solely responsible for ensuring the interest control indicator is properly set.

Department Response

During this audit, when the topic was discussed with the auditor about using the date from when a credit card statement is available, Texas Military Department began at that moment using the correct date for these payments. All accountants will re-take the prompt Payment and Scheduling class offered by the Texas Comptroller's Office. Staff will also be re-trained to help them understand how and when interest is calculated, and the meaning of reason controls. If for any reason staff believes interest should be refused, the matter will be presented to their manager for review. If approved to refuse interest, the reasons will be documented in the payment file. The department uses an invoice tracker that is currently being modified to show when an unpaid invoice has reached the 15 day mark. Once the invoice reaches the 20 day mark, the tracker will send a daily notice to AP management of non-payment. This will assist with identifying an invoice before the payment is late and begins to draw interest.



Duplicate Payments

Auditors identified three payments (one in the payment card sample and two in the travel card sample) to the state credit card provider that were duplicate payments already made for the same card charges. There was no evidence the amounts had been refunded or credited back to the Department. Although it does not appear the vendors from which the goods/services were purchased were paid more than once, the Department overpaid the credit card provider.

A state agency is responsible for reviewing each purchase voucher for accuracy and completeness before the agency submits the voucher to the Comptroller's office for processing. See [eXpendit: General Provisions — Responsibilities of State Agencies – State Agency Completion and Review of Vouchers](#).

Recommendation/Requirement

The Department must ensure payments are not made more than once for the same purchase. Additionally, internal controls should be enhanced to prevent and identify duplicate payments and reimbursements, including but not limited to:

- Thoroughly reviewing each purchase voucher before submitting it for payment.
- Regularly monitoring reports of all payments.
- Using standardized voucher field entry for reliance on the accounting system's automated duplicate payment audits.

Department Response

The manager will create and implement a standardized voucher field entry for staff to use to assist the automated system to identify duplicates. A checklist will be implemented for payments, that will ensure an accountant checked the purchase order to verify payment has not already been processed. The manager will run a report from the financial system to review and assist with verifying no duplicates exist.

Credit Card Statement Reconciliations Not Performed or Not Timely

Auditors identified instances where reconciliations of monthly credit card statements were not completed in compliance with Department policies.

Reconciliations of the monthly credit card statements were not timely for five payment card statements. There was no evidence to support a reconciliation was performed for 15 other payment card statements.

There was no evidence to support a reconciliation was performed for 12 travel card statements. In addition, for seven of the 12, there was no supporting documentation that auditors could use to match any of the food, lodging, and transportation charges included on the applicable credit card statement for the sampled transaction.



Although not all of these credit card statements were related to governor declared disasters, according to the Department, it has been in State Active-Duty (SAD) disaster response mode continuously since March 2020 due to the COVID 19 pandemic and civil disturbance missions to the southern border (Operation Lone Star). Due to the volume of activities and excessive turnover, certain processes have been missed, such as the signature on the transaction log.

Without proper/timely reconciliation to track and monitor the Department's credit card expenditures, it is difficult for the Department to identify incorrect charges, and consequently there is a greater risk for fraud, erroneous charges, and other discrepancies. This is especially important when there are high volumes of transactions and/or during events with increased spending. When the reconciliation is not prepared, review of the transactions for appropriateness, completeness, and accuracy of supporting documentation is difficult. Reconciliation allows for an impartial review of the work of those who maintain the underlying records, providing good segregation of duties.

Sections 2.2.2 and 2.2.3 of the Department's Procurement Payment Card Procedures provide requirements for reconciling the individual billing statements, transaction logs, and vendor invoices/receipts and for performing supervisory pre-payment reviews and approvals.

Recommendation/Requirement

The Department must ensure the payment cardholder reconciles the individual billing statement, transaction log, and vendor invoices/receipts, and submits for pre-payment review and approval in a timely manner. Assigned managers should conduct a pre-payment review and approval of the cardholder's transaction log, statement, and all required supporting documents for each billing cycle to evaluate the transactions for appropriateness and for completeness, and accuracy of supporting documentation. Infractions, violations, and questionable purchases should be reported and/or investigated, as applicable. Signatures and dates should be documented to attest to preparation and review.

Department Response

The OSA Procurement Payment Card Procedures Manual requires the cardholder to reconcile individual billing statement, transaction log and vendor invoices/receipts. The cardholder must sign and date the individual statement and transaction log and submit to the Program Cardholder Manager for prepayment review and approval three (3) business days following receipt of the individual statement.

The OSA Travel Payment Card program is working to establish procedures for a consistent and timely reconciliation process. For example, as part of an advisory audit, the agency's internal auditors are assisting with development of processes and procedures to strengthen compliance in this area.



Prohibited Items Purchased and/or Missing Pre-Approvals

Auditors identified payment card transactions in the sample that were made for purchases of prohibited goods/services and/or were missing required pre-approvals. Department cardholders and managers failed to comply with Department policies for using agency-issued payment cards and reviewing these charges. Among the findings:

- There was no evidence that managerial approval was obtained prior to using the payment card for 16 purchases.
- There was no evidence of written approval from the procurement director or the purchasing manager prior to using the payment card for four purchases exceeding \$500 each.
- The payment card was used for six prohibited purchases; prohibited items purchased included, but were not limited to:
 - Services with a time-period over two months.
 - Advertisement.
 - Services with an automatic renewal.
 - Membership dues that require Office of State Administration Director's pre-approval.
 - Prescription medications.

The Department's Procurement Payment Card Procedures provide requirements and guidelines for:

- Supervisory pre-approval prior to each use of payment cards (Section 2.2.2).
- Procurement director or purchasing manager approval for transactions exceeding \$500 (Section 2.2.3).
- Purchases for which the payment card may not be used (Section 4).
- Reporting violations and corrective actions for non-compliance (Section 2.1.1).

Recommendation/Requirement

The Department must ensure cardholders obtain the necessary pre-approvals for all payment card transactions in accordance with the Department's policy. Cardholder managers should conduct the pre-payment review and approval of the cardholder's transaction log, statement, and required supporting documents for each billing cycle to evaluate the appropriateness of transactions, completeness, and accuracy of supporting documents. Staff members should be trained on their responsibilities related to payment card use and transactions reviews. Department management should also follow its policies on reporting violations and corrective actions for non-compliance.



Department Response

The Payment Card Administrator (PCA) reviews program card usage at least quarterly and report activity results to the Payment Cardholder Manager (PCM) or Manager's designee to ensure no prohibited purchases were made. The PCA, informs the PCM that all purchases complied with procurement card rules. If the report shows any violations, the PCA will request the Procurement Director consider cancellation of the offending cardholders' procurement card or require written justification for the card to remain open. All individuals violating procurement rules are required to re-take the training.

The department is working to establish uniform credit card procedures and training for the various types of credit cards used by the agency (Travel, Procurement and Voyager). This training will focus on roles and responsibilities for cardholders and manager approvals. Cardholders that violate the use of the card, will be required to re-take the training. Repeated violations may result in cancellation of the card.

Travel Transactions

Auditors developed a sample of 20 travel transactions totaling \$15,667.23 and 27 travel card transactions totaling \$6,311,012.19 to ensure the Department complied with the GAA, [Textravel \(FPP G.005\)](#), and pertinent statutes. Audit tests revealed the following exceptions for this group of transactions.

Excessive Reimbursement/Direct Payment Amounts

Auditors noted five payments for employee travel that did not comply with statutes, Comptroller policy and Department policy. The payments exceeded authorized rates or included extra charges.

Auditors identified three rental cars transactions where the vehicle class/rate exceeded the state contract rate for intermediate/standard vehicles. The Department did not provide justification for obtaining a more expensive vehicle class/rate. According to the Department, its travel auditor overlooked this issue and did not request a reason for the higher price.

A traveler was reimbursed for one extra night of hotel lodging and parking expenses. The travel voucher did not provide an explanation for the overpayment. According to the Department, its travel auditor omitted an email from the traveler stating the hotel refused to refund the last night when the employee went home early due to illness.

Auditors identified one travel reimbursement where the Department used an incorrect mileage rate for driving a personally owned vehicle resulting in an overpayment to the employee. According to the Department, this item was overlooked by its travel auditor.



[Texas Government Code, Section 660.091](#) entitles a state employee to reimbursement for the cost of renting a vehicle to conduct state business; however, Section 5.01 of the Department's Travel Policies and Procedures Manual only authorizes reimbursement for intermediate/standard cars unless a larger vehicle is needed to conduct, or enable the employee to conduct, official state business. If a traveler requires a larger vehicle the reason must be stated on the travel request.

[Texas Government Code, Section 660.012\(b\)](#) allows for a state employee to be reimbursed for a travel expense incurred when the employee returns from a duty point to his or her designated headquarters before state business is completed due to illness or a personal emergency; however, an explanation should be included with the travel voucher/documentation to explain the reason for the additional cost.

[Texas Government Code, Section 660.041](#), entitles an employee to be reimbursed for mileage incurred to conduct state business; however, the reimbursement may not exceed the total number of miles traveled for business multiplied by the maximum mileage reimbursement rate per [Texas Government Code, Section 660.042](#).

Recommendation/Requirement

The Department must ensure travel expenditures do not exceed authorized rates or do not include excess amounts. If exceptions are necessary, justifications must be included with the travel documentation to support the appropriateness and allowability of the payments. Travel reimbursements must be examined before payment to ensure compliance with all applicable rules and regulations.

In addition, staff training programs and related documentation should include instructions on complying with authorized travel rates/limits and adequately documenting exceptions.

Department Response

The training team for Texas Military Department is in the final stages of completing a detailed training related to travel activities. This tool will be utilized by the employee/traveler and the accountant processing the reimbursement to ensure compliance with travel rules. A checklist has also been created for the accountant to use when processing each travel voucher. This checklist helps verify all rules are followed and all documentation is received. All travel accountants must take the travel training classes offered by the Texas Comptroller's Office.

Lack of Conservation of Funds

Auditors noted three employee travel reimbursements where the travelers did not use the travel method with the lowest direct dollar cost to the state. The Department reimbursed these travelers for mileage to use their personal vehicles; however, auditors estimated the cost for a rental vehicle would be less. There was no indication



Department staff conducted a cost comparison of travel methods and no documented justification or prior approval for the higher-cost option. Travel reimbursement for a fourth employee included fees for rental car at the out-of-state travel destination. According to the rental car receipt, the employee only drove 20 miles over the four-day rental period. Travel documentation stated the hotel was chosen based on its proximity to the training location. The Department did not provide a reason why the employee needed a rental car or justification for the total cost.

According to the Department, it overlooked the higher cost of personal vehicle use, so it did not request justification from the travelers. In addition, prior to Sept. 1, 2022, the Department did not require cost comparisons for rental vehicles, but since that time, a pre-travel form that addresses the issue is now required. The form includes a section where the traveler can notate the reason for choosing to drive a personal vehicle when a rental is cheaper.

The three instances where personal vehicles were used to travel resulted in the agency paying a total of \$837.99 more than the estimated cost for rental vehicles. In the one instance where a rental car was obtained at the travel destination, a total cost of \$442.74 was unjustified (this cost included the rental charge, fuel, and hotel parking).

[Texas Government Code, Section 660.007\(a\)](#), requires agencies to minimize travel expenses they pay or reimburse and to ensure each travel arrangement is the most cost effective considering all relevant circumstances. Agencies must also examine all travel reimbursements before payment to ensure compliance with regulations and limitations. See [Textravel - Responsibilities](#).

Recommendation/Requirement

The Department must ensure staff performs and documents cost comparisons for different travel methods (personally owned vehicles, rental vehicles, fleet vehicles, commercial airlines, etc.) before making travel arrangements. When a traveler chooses a more costly option, they must justify and document the choice with any contributing factors and indirect cost savings, receive preapproval, and include the justification and preapproval with the cost comparison. In all cases, the traveler should reference the comparison and justification on the travel voucher and submit and maintain it with travel documentation. See the [Rental Vehicle vs. Mileage Reimbursement Calculator](#) for cost comparison help.

In addition, Department policies as well as staff training programs and related documentation should include instructions on comparing different methods of travel, justifying higher-cost options, and maintaining documentation to support the choice.



Department Response

TMD requires travelers to submit a pre-travel form for all travel. When the pre-travel form is submitted, the accountant verifies the calculator is attached and completed accurately. If the calculator is not completed or is incorrect, the accountant returns the pre-travel form to the traveler for correction. This calculation sheet will also be attached in the travel voucher when submitting for reimbursement.

The training team for Texas Military Department is in the final stages of completing a detailed training related to travel activities. This tool will be utilized by the employee/traveler and the accountant processing the reimbursement to ensure compliance with travel rules. A checklist has also been created for the accountant to use when processing each travel voucher. This checklist helps verify all rules are followed and all documentation is received. All travel accountants must take the travel training classes offered by the Texas Comptroller's Office

Non-Compliance with Advance Approval for Out-of-State Travel

Auditors noted five travel events in the travel sample and two travel events in the travel card sample where foreign and out-of-state travel did not comply with applicable statutes, Comptroller policy and Department policy for pre-approval.

Two out-of-state events were approved either after travel departure or less than the required number of days prior to departure.

One foreign travel event and one out-of-state travel event had approval, but the approval was not dated so auditors could not determine if the travel was approved prior to departure.

Two out-of-state events and one foreign event were approved by individuals who did not have documentation to support they were designated to pre-approve travel on the authorized approver's behalf.

When travel outside of Texas is not pre-approved properly, payments or reimbursements for the applicable travel expenses may not be allowable.

According to the Department, the military gives some travelers little notice that they will be traveling out-of-state or out-of-country. Travelers do their best to get all forms signed before leaving; however, abiding by this rule is not always feasible. In some cases, a traveler may receive only a few hours notice to leave. The Department will ensure it includes documentation with the travel voucher in situations where pre-approval is not obtained. Additionally, on Sept. 1, 2022, the travel department introduced a pre-travel form for all travel that must be submitted and approved before departure.

[Texas Government Code, Section 660.003\(e\)\(4\)](#), allows an agency to pay or reimburse a travel expense for travel outside the state only if the travel is approved in advance in accordance with the policy of the agency that proposes to pay or reimburse the



expense. [TexTravel – Miscellaneous Provisions – Out-of-state travel](#), states that an agency may only pay for business-related travel expenses incurred outside of Texas if the travel was approved in advance in accordance with agency policy. [Texttravel – Miscellaneous Provisions – Travel to Foreign Countries Other Than Canada and Mexico](#), states that prior approval by the agency’s chief administrator or designee is required for an employee to be reimbursed for expenses incurred while conducting state business at a duty point in a foreign country other than Canada and Mexico.

The Department’s travel policies provide a listing of the individuals authorized to approve all out-of-state travel and travel to foreign countries, as well as the amount of time needed to obtain approval documentation prior to travel.

Recommendation/Requirement

The Department must ensure all instances of travel outside of Texas (including travel to foreign countries) are approved by an authorized individual prior to departure in accordance with state and Department policy. The pre-approval must be included with travel documentation. Substitute approvers should be documented. When extenuating circumstances lead to non-compliance, an explanation should be documented and included with the travel documentation.

Department Response

Texas Military Department implemented an advance travel form for any employee who travels – in state or out of state. This form was implemented September 2022, which was after the audit scope of March 1, 2020 to February 28, 2021. This form is attached to all payments made related to travel - air fare bill, travel voucher, travel card, etc. The process has been modified to allow either the Director, CFO or Deputy CFO to sign for out of state travel approval. The form includes a check box and the email for the mandatory notification about travel to Washington, D.C.. When the travel voucher is submitted for reimbursement, this email is attached as verification of submittal. Staff is being trained to document any and all exceptions made to travel policies.

Approval for Reimbursement Occurred Prior to Travel

Auditors noted two employee travel events where the employees digitally signed the travel voucher forms prior to the travel dates. One of the travel vouchers included a personal vehicle mileage reimbursement and both included meal reimbursements. In addition, the supervisors signed/dated the travel vouchers before the travel occurred. Although travel advances are allowed, there is no evidence indicating these were related to travel advances to the employees. It is unknown why the employees signed the travel vouchers prior to travel. According to the Department, its travel auditor overlooked these items at the time of payment. When travel expenses are submitted and approved prior to occurrence, there is a chance the actual costs are different than the reimbursement amounts. As a result, reimbursements to employees may be incorrect or include expenses that were not incurred.



State travel expense reimbursement is not a per diem. An employee must claim the actual expenses incurred for meals and lodging, not to exceed the maximum allowable rates. The maximum should not be claimed unless the actual expenditures equal or exceed the maximum allowable rate. In addition, employees are entitled to be reimbursed for mileage incurred to conduct state business. See [Texttravel – Meals and Lodging](#) and [Transportation](#). The employee's signature on the travel voucher form represents the employee's certification that the expenses shown on the travel voucher are true, correct, and unpaid.

Agencies must ensure all travel reimbursements are examined before payment to ensure compliance with all applicable regulations and limitations. See [Texttravel – Responsibilities](#).

Recommendation/Requirement

The Department must ensure employees do not submit travel voucher forms that include expenses that have not been incurred. In addition, employees tasked with the responsibility to review and approve travel reimbursements must be properly trained and must thoroughly examine documentation before reimbursements are made to ensure compliance with all applicable regulations and limitations.

Department Response

Accountants have been told to slow down and pay closer attention to all details. The travel training being implemented will include a reminder to travelers about the appropriate reimbursement process to include signing and submitting a travel voucher after the travel has occurred.

Missing Required Information on the Travel Voucher Form

Auditors identified 15 travel transactions where the related travel voucher form contained missing information in required fields. The following required fields were missing from the travel voucher forms that were signed and dated by the individuals claiming reimbursement:

- Document #
- Fiscal Year
- Document Amount
- Designated Headquarters
- The Traveling Employee's Texas Identification Number
- Accounting Info
- Description



The Department stated it is required to use assigned signature cards when electronically signing documents, and again when a fill-in form is altered after it has been electronically signed since the signature is removed. Due to this reason and since some of the information may also be in the CAPPs payment details with the attached travel voucher, the Department does not complete all the required fields.

The Comptroller's travel voucher form adopted by the Department is completed to support the legality and fiscal responsibility of a travel payment or reimbursement. The [Travel Voucher \(73-174\) \(PDF\)](#), and its instructions on Textravel indicate which fields are required for reimbursement of business-related travel expenses. According to the Comptroller's Expenditure Assistance group, if an agency is not using the CAPPs Travel & Expense Module when submitting travel vouchers, it must fill out all information required on form 73-174 and should not leave any required fields blank.

According to TexTravel, the travel voucher/form must be signed and dated on paper or electronically to be considered approved by the individual claiming reimbursement. A signature on a paper or electronic travel voucher/form is automatically revoked if new information is added after it is signed, unless the addition is approved by the individual who signed the voucher/form. See [Documentation Requirements – General Provisions – Reimbursements to an Individual](#).

In addition, any travel voucher other than the official Comptroller travel voucher must be approved by the Comptroller's office before use and agencies must retain documentation of this approval in their files. Agencies are required to include all required fields for USAS processing on the travel voucher. See [Textravel – Documentation Requirements – General Provisions – Alternative Travel Voucher](#).

Recommendation/Requirement

Since the Department is not using the CAPPs Travel & Expense Module, it must ensure all required fields on the Comptroller's standard Travel Voucher (73-174) are completed for all travel payments or reimbursements of business-related travel expenses. If the Department is having trouble/issues with the Travel Voucher (73-174) or needs guidance using an alternate travel voucher form, it can contact the Comptroller's Expenditure Assistance section for options and advice.

Department Response

A process has been implemented for the travel accountant to enter required data into a separate Excel spreadsheet. This step was implemented to capture all required information and address the electronic signature being stripped when edited after submittal.

The Accounts Payable manager will research other agencies who do not yet have the CAPPs Travel module, to potentially simplify meeting this requirement.



Travel Expense Reimbursement to Incorrect Individual

In a report outside the travel sample, auditors identified one travel reimbursement that was issued in error to the wrong employee. Since the travel voucher did not list a Texas Identification Number (TIN) for the traveler (as required), a different person with the same name received the travel reimbursement. When positive identifying information such as the TIN is not listed on travel reimbursement documentation, an incorrect individual may be paid for expenses he or she did not incur. Although the Department later discovered the wrong person was paid and identified the correct traveler, the Department was unable to provide documentation to show the original incorrect reimbursement was rectified.

Agencies must ensure all travel reimbursements are examined before payment to ensure compliance with all applicable regulations and limitations. See [Texttravel - Responsibilities](#). The Comptroller's travel voucher, [form 73-174 \(PDF\)](#), is used by state agency personnel to document information required for reimbursement of business-related travel expenses. Certain fields on the form are required, such as the TIN of the employee traveler being reimbursed.

Recommendation/Requirement

The Department must ensure all travel reimbursements are examined before payment to ensure compliance with all applicable regulations and limitations. In addition, the employee's TIN and other identifying information should be listed on the travel voucher to ensure the correct employees are paid. The Department should rectify the erroneous travel reimbursement and reimburse the state treasury.

Department Response

Accountants have been instructed to return any travel voucher that does not have the employee's TIN. When the voucher is returned to Finance for payment, the accountant verifies the TIN is correct and if there is any uncertainty about the employee's identity, the accountant raises the issue with the manager to help research and ensure the appropriate individual is paid. The travel training being implemented will include a reminder about the requirement of all travelers supplying their TIN on all submitted vouchers. The Department will rectify the error and reimburse the state treasury.

Grants

Auditors reviewed two grant transactions submitted for reimbursement totaling \$133,220 to ensure the Department complied with the GAA, Department policies and procedures, and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.



Fixed Assets

The audit included a review of eight fixed assets acquired during the audit period to test for accurate reporting in the State Property Accounting (SPA) system and to verify the existence of assets. Audit tests revealed the following exceptions in these transactions.

Incorrect SPA Reporting/Classification

Auditors identified six assets that were incorrectly reported and/or classified in the SPA system – all six had incorrect class codes and one of the six also had an incorrect description of the asset. According to the Department, for one of the assets, an employee used an incorrect asset number resulting in the replacement of the original asset by a new asset in the SPA system. The asset manager has now corrected the information. For the other five assets, finance department staff entered incorrect class codes when the requisitions were being routed in CAPPs. When assets are incorrectly reported/classified in SPA, the assets and their balances can be included in the wrong Annual Financial Report (AFR) category which could affect the accuracy of the statewide Annual Comprehensive Financial Report (ACFR).

Under the authority of Texas Government Code, Sections 403.271 – 403.278, the [CPA SPA Process User's Guide \(FPP N.005\)](#) outlines an agency's responsibility for reporting and maintaining capital asset information in the SPA system. Additionally, the guide contains policies adopted by the Comptroller's office to ensure consistency in the reporting of capital assets by agencies.

When assets do not fall into an obvious class code, SPA staff advises agencies to select the one they believe is most appropriate and then document the use of that class code for all assets of that type and then ensure they are classified uniformly to ensure consistency.

Recommendation/Requirement

The Department must ensure assets are entered accurately in the SPA system in compliance with state rules and requirements and that supervisor reviews are in place to check the data entered is correct. For the errors noted, the class codes should be corrected. If the asset is a prior year addition and the class code change will cause the asset to change AFR categories, the Department will have to take several steps to change the class code. The Department should work with SPA staff to ensure these are changed correctly.

In addition, the Department must ensure employees are properly trained and knowledgeable in the rules, policies, procedures, and system operation of SPA as well as the accounting for and care of the Department's property.



Department Response

Asset Management worked with SPA staff to ensure appropriate corrections were made. At one point in the past, Asset Management was removed from the CAPPs workflow process; Asset Manager will be reinserted into the approval workflow process within CAPPs. When approving requisitions, the Asset Manager will review the Comp Object Code and Profile Id/Class Codes to make sure the correct codes are used.

Asset Management will coordinate with TMD's state training team to develop and deliver state property training to appropriate personnel. Property training will be offered once per quarter; state property coordinators must take the property class once a year.

Incorrect Valuation in SPA

Auditors identified one asset in the sample that did not have the correct asset acquisition cost listed in SPA. The amount in SPA was only the base cost of the four-wheel all-terrain vehicle; however, the costs for dealer-installed vehicle accessories and for delivery were not included in the total amount entered in SPA. According to the Department, this error was a result of an oversight and does not align with procurement practice. The asset manager will make necessary adjustments. Due to the error, approximately \$5,000 in dealer installed accessories were not included for the initial acquisition cost of the vehicle. When acquisition costs are incorrect for assets in SPA, asset balances will be misvalued in the statewide ACFR.

Capital assets should be recorded and reported in both USAS and SPA at their historical costs, which include the vendor's invoice (plus the value of any trade-in), sales tax, initial installation cost (excluding in-house labor), modifications, attachments, accessories, or apparatus necessary to make the asset usable and render it into service. Historical costs also include ancillary charges such as freight and transportation charges. See [SPA Process User's Guide - Chapter 1 - Introduction to Capital Assets](#).

Recommendation/Requirement

The Department must ensure asset values are entered accurately in the SPA system in compliance with state rules and requirements and ensure that supervisory reviews are in place to verify the data entered is correct. For the error noted, the Department should work with SPA staff to determine necessary corrections.

Additionally, the Department must ensure employees are properly trained and knowledgeable in the rules, policies, procedures, and system operation of SPA as well as the accounting for and care of the Department's property.



Department Response

The Asset Manager worked with SPA staff to make necessary corrections. Asset Management also developed a query to identify assets received incorrectly. The Asset Management team runs this query monthly. When an error is noted, corrections are made in CAPPs and SPA so the asset has the correct valuation and description.

Asset Management will coordinate with TMD's state training team to develop and deliver state property training to appropriate personnel. Property training will be offered once per quarter; state property coordinators must take the property class once a year.

Missing Asset Tags

Auditors identified three vehicles that did not have an asset tag affixed at the time of testing. The vehicles were verified by comparing vehicle identification numbers with purchase records. The Department stated that due to initial placement, the asset IDs were exposed to the weather and must have detached. The asset manager is providing replacement asset IDs for the items. Going forward, the asset manager will update procedures to require placement of the asset IDs in an area that won't be exposed to the weather to reduce the risk of removal. When an asset is not clearly marked and numbered as property owned by an agency, there could be issues identifying and tracking the asset, and/or there could be increased risk of asset loss or theft.

All property capitalized or designated as a "controlled" asset must be marked or tagged as property owned by the agency with the exception of real property. Property number labels must be highly visible and easily accessible during the annual inventory. See [SPA Process User's Guide – Chapter 2 – General Policies, Tagging of Property](#).

Recommendation/Requirement

The Department must ensure agency assets are labeled as property owned by the Department in a way that cannot be easily removed or become detached. Additionally, number labels must be highly visible and easily accessible.

Department Response

Programs request asset tags when property arrives. TMD procedure requires the program to place the asset tag on the equipment as soon as possible. Procedure now requires that asset tags must be placed on equipment in areas where it will not be affected by weather. As a control, during each quarterly inventory, the Asset Manager will identify certain assets for which each program must provide photos of asset tags placed properly.



Construction-In-Progress Assets Not Capitalized to the Appropriate Capital Asset Category When Completed

Errors in SPA system reporting were also noted during the review of payments in the purchase and contract samples. Six of the purchase and contract payments were coded with comptroller object 7341 (Real Property – Construction in Progress – Capitalized). These six payments were related to three construction projects. Based on documentation reviewed, all three construction projects were completed in 2020 and in 2021. SPA system records were examined to determine if these projects were appropriately transferred from the temporary construction in progress (CIP) asset classification to a permanent asset. All three construction project balances appeared to still be classified fully or in part as CIP assets in SPA even though these projects have been completed. According to the Department, the managing of CIP has not been accurate in SPA and Department management acknowledged this during completion of the AFR. Department management has already contacted the Comptroller’s specialist for CIP and will begin working to identify all issues with CIP and how to proceed with correcting entries.

The effect of these errors is that assets have been reported incorrectly on financial reports as CIP instead of a permanent asset with applicable depreciation. Based on numerous other CIP assets in the Department’s SPA records that have had no CIP activity in recent fiscal years, there is a potential that other construction projects may be completed but are still being reported as CIP as well. Due to the high dollar amount of the Department’s total CIP balance, reporting inaccuracies could be significant to the statewide ACFR.

CIP is used to capture construction expenses if the asset under construction meets the capitalization threshold for its asset category and if the project is in progress for one year or more and/or it spans two fiscal years. Once the building or asset is completed, it must be moved out of CIP and then added as a permanent asset that begins depreciating. Essentially, assets only remain in CIP for construction activity that is substantially incomplete. If a project is still in progress, then additional expenditures would be recorded each fiscal year. Additionally, CIP assets must be closed out if a project is canceled. Procedures for handling CIP in SPA are described in detail in the [SPA Process User’s Guide, Chapters 4, 5, and 6](#).

Recommendation/Requirement

The Department must ensure construction projects and their expenses are correctly recorded in the SPA system according to the stage of construction (in-progress vs. completed) in compliance with state rules and requirements and ensure that supervisory reviews are in place to check the data entered is correct. Identifying information and descriptions for CIP asset entries should also clearly associate those entries to the relevant Department construction project. For the errors noted, the Department should work with SPA staff to determine necessary corrections.



Additionally, the Department must ensure employees are properly trained and knowledgeable in the rules, policies, procedures, and system operation of SPA as well as the accounting for and care of its property.

Department Response

Accountants will take the SPA training offered by the Texas Comptroller's Office (CPA) to ensure they are knowledgeable about: rules, policies, procedures, system operations, and agency property care and accountability. Additionally, the agency will reach out to CPA to work directly with a specialist to clear the backlog of construction assets that should be shown in the records as disposed.

Targeted Analysis

The audit included a review of several standard reports generated outside the transaction samples. Auditors conducted a targeted analysis in various areas and reviewed processes and procedures to determine compliance with state rules, regulations, and processing requirements. Audit tests revealed the following exceptions in the targeted analysis reports.

Loss to the Rebate Payment Card Program

The Department is not in compliance with the early payment discount/rebate requirements for state agencies because it failed to take advantage of early discounts/payment 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 Department, it attempts to verify appropriate charges and resolve questionable, disputable, and/or fraudulent charges before the payment is made. This up-front review process means the Department may not be able to qualify for the discounts for early payment. The Department will review procedures to determine how it can take advantage of early payment discounts and prevent the misuse of state funds.

Citibank 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 on the Citibank online website the next day, the fourth. The discount rebate calculation starts the day after the statement/invoice is available on the 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.



Citibank currently pays a base rebate of 1.93 percent on payments received 30 days after the statement date, which increases by 0.75 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 charge cards issued to employees).

The Department did not take advantage of the discounts offered by Citi and paid invoices an average of 104 days after the statement date. Also, by not taking advantage of the discounts/rebates, agencies hinder SPD's ability to negotiate rebates on future contracts.

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

Recommendation/Requirement

The Department should change its payment processes to take advantage of discounts/rebates and avoid the double penalty of lost discounts/rebates and paying late payment interest. The Department 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, if necessary, based on supporting documentation received, and reconcile and pay as costs arise.

Department Response

Texas Military Department (TMD) is working towards getting fully staffed to reduce the delays in processing payments and to handle the reconciliation that is associated with partial payments. TMD is also pursuing automation of current manual processes that will allow the agency to reconcile travel and purchase receipts shortly after the statements are issued.

Missing/Incomplete Direct Deposit Authorization Forms (International ACH Transactions)

Auditors reviewed the Department's procedures to comply with the federal mandate to properly identify and handle payments involving the international transfer of funds.

Of the 10 transactions selected for review, seven direct deposit forms were missing and one direct deposit form on file was not completed properly (Section 5: International Payments Verification was blank – neither "YES" nor "NO" was checked). Without the



forms or correctly completed forms on file, the Department is unable to indicate whether state funds were forwarded to a financial institution outside the United States. The Department stated information was omitted before it began retaining the information in CAPPs.

International Automated Clearing House transactions (IATs) are payments destined for a financial institution outside the United States. Because of federal requirements mandated by the Office of Foreign Assets Control (OFAC), the National Automated Clearing House Association (NACHA) has adopted specific rules on the identification and processing of these types of direct deposit payments.

To avoid federal penalties, each agency must:

- Show due diligence in the processing of all direct deposit payments.
- Do its best to ensure direct deposit payments issued to accounts at U.S. financial institutions are not ultimately being transferred to financial institutions outside the United States.

Recommendation/Requirement

The Department must ensure all payees who request payment by direct deposit submit a completed, signed direct deposit authorization form with the international payment verification question answered. Additionally, the Department must ensure the forms are maintained according to record retention requirements.

Department Response

Direct deposit forms are submitted by vendors to set them up in CAPPs to receive their payment by ACH versus warrant. Accountants are verifying the direct deposit authorization forms are completed in their entirety and returned to the vendor if incomplete. A secondary review occurs when the manager approves the action. Staff have been instructed to document, with attachments in CAPPs, any changes made to the vendor information.

Incorrect Processing of Third-Party Transactions

Payments to the state issued credit card provider, Citibank, were incorrectly processed on 13 different monthly credit card statements in the payment card and travel card samples.

Five transactions in the payment card sample were included on four of the 13 statements. These four statements included many separate payment card charges during each monthly cycle (ranging from two charges to 28). These charges occurred on various days throughout each monthly statement cycle from many different vendors; however, the many separate charges were combined into one transaction in USAS for each of the monthly cycles. In addition, the combined charges in the



few USAS transactions were all processed under the TIN of the credit card provider (Citibank) instead of the TIN of the vendor(s) from which the goods/services were purchased. In two of the statements the combined charges were processed under comptroller object 7300 (consumables) instead of the comptroller object related to the actual goods/services purchased.

A total of 14 transactions in the travel card sample were included on nine of the 13 statements. These nine statements included numerous separate travel card charges during each monthly cycle (ranging from 11 charges to several thousand). These charges occurred on various days throughout the monthly statement cycle from many different vendors; however, the numerous separate charges were combined into just a few transactions in USAS (ranging from 2 to 9) for each of the monthly cycles. In addition, the combined charges were all processed under the TIN of the credit card provider (Citibank) instead of the TIN of the traveling employees for whom the charges were made. Due to the way the thousands of travel card charges were combined and the volume of charges, auditors were unable to individually test the travel expenditures included on these nine monthly travel card statements.

In a report of credit card transactions auditors noted that in total:

- There were \$203,812.13 in payment card charges (from 845 transactions in USAS) that used the Citibank TIN in the T-code 264 entries instead of the specific vendor TIN(s) of the business(es) where the purchases were made.
- There were \$11,585,167.87 in travel card charges (from 176 transactions in USAS) that listed the vendor's TIN in the T-code 264 entries instead of the specific traveling employee's TIN(s).

In another report outside of the samples, auditors noted that the non-specific payment card TIN (31000060660.000) was used for four transactions. This TIN may be used only on third-party payment card transactions if the TIN/mail code is unknown for the specific vendor and all efforts to obtain the vendor's TIN are unsuccessful.

According to the Department, its CAPPs system does not have the ability to mass upload expenses from an Excel document and CAPPs times-out not allowing the entry of a large statement. Therefore, due to high turnover, difficulties in filling vacancies, and multiple disasters, the accountant attempted to streamline this process by combining like-charges, not realizing the effects this causes.

Without separating each credit card charge processed in the accounting system, statewide transparency reporting of expenditures is inaccurate, i.e., each purchase will not:

- Reflect the actual date of purchase.
- Be classified based on the correct comptroller object for all the items purchased.
- Be attributed to the actual vendor from which the item was purchased or the actual traveler for whom the item was purchased.



The Comptroller's office captures vendor-level details in USAS for public information requests, historically underutilized business (HUB) reporting, and more. Improper processing procedures can result in inaccurate expenditure reporting. A correct TIN is necessary to identify the actual vendor/individual doing business with the state. See [Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements \(FPP A.043\)\(login\)](#) for information on the use of T-codes, TINs, and comptroller objects to process third-party payments in USAS.

Recommendation/Requirement

The Department must ensure its method of processing third-party transactions in USAS, the accounting system of record for the state of Texas, separates each individual card charge, codes to the correct comptroller object, and includes proper vendor/employee-level detail as required by FPP A.043.

Department Response

Accountants will be required to re-take the Basic Expenditure Processing and Documentation and Comptroller Object classes offered by CPA. Management will also ask CPA to come train with the agency to help in the understanding of the proper T-code to use when processing payments.

The agency will document for the records all attempts to contact vendors for completion of the AP-152 form for setup in the CAPPS/USAS systems. This documentation will show why the Citibank default TINS was used versus the vendors individual TINS.

The agency is exploring ways to comply with the recommendation, particularly with regards to the individual card charges occurring during disaster missions. These charges can be voluminous and TMD's CAPPS system times out before entries are completed. Also an independent CAPPS contractor informed the agency that the CAPPS Excel upload, available to some agencies, does not work with TMD's CAPPS system. The agency will continue to seek resolution to this issue.

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. Upon termination or revocation, certain deadlines must be met so that security can be revoked in a timely manner. Audit tests revealed the following exceptions.

Failure to Request Security Access Removal for Terminated Employee

During the audit period, the Department failed to submit to the Comptroller's office a timely request for three terminated employees who had been designated to approve expenditures. The lack of timely notification meant the employees retained USAS



security after termination. The employees could have approved expenditures submitted to the Comptroller's office during that time. Any expenditure that was approved under the employees' expired authority would have constituted an unapproved expenditure. According to the Department, since fiscal 2020, it has supported an unprecedented level of state active duty missions related to declared disasters and other emergencies that quadrupled the workload. Additionally, during this time, the Department experienced exceptionally high turnover. These factors contributed to staff overlooking the required notice to the Comptroller.

When a designated employee terminates employment with an agency, the agency must notify the Comptroller's office about the termination. See [34 Texas Administrative Code Section 5.61\(k\)](#). Any officer or employee may send the Comptroller's office notification or termination or revocation. See [34 Texas Administrative Code Section 5.61\(k\)\(3\)\(B\)](#).

Recommendation/Requirement

The Department must ensure notifications sent to the Comptroller's office to remove an employee's USAS security profile are sent on or before the effective date of the revocation or termination to prevent the employee from executing electronic approvals. It must also ensure the person responsible for sending the termination notifications to the Comptroller's office is aware of the employee's termination date and follows up with the Comptroller's office to ensure receipt of the notification and ensure the revocation occurred.

Department Response

Employee termination access removal is included in current documented operating procedures. When an employee terminates:

- 1. CAPPs and IT support receive a termination email from Human Resources (HR) on the employee's last day.*
- 2. HR terminates the employee. The termination removes all CAPPs and USAS roles the employee has. Additionally, the employee's government email is removed and replaced with a personal email. At this point, the employee has no access to USAS or CAPPs.*
- 3. The CAPPs security coordinator then submits a ticket to CAPPs security to remove all user preferences and also submits a termination ticket.*
- 4. If an employee has signature card, the Chief Financial Officer presents a letter signed by the TAG, the agency head, to remove the user from the signature card.*
- 5. The security coordinator submits a security ticket and attaches the signed letter requesting the user's removal.*



Failure to Notify Comptroller to Remove Employee(s) from Signature Card

During the audit period, the Department failed to timely notify the Comptroller's office about the termination of two employees who had been designated to approve its expenditures on the signature card. This oversight could have permitted the employees to approve electronic and paper vouchers that were submitted to the Comptroller's office during that time. Any payment produced by an electronic or paper voucher that was approved by the terminated employee would have constituted an unapproved expenditure. According to the Department, since fiscal 2020, it has supported an unprecedented level of state active duty missions related to declared disasters and other emergencies that quadrupled the workload. Additionally, during this time, the Department experienced exceptionally high turnover. These factors contributed to staff overlooking the required notice to the Comptroller.

When an employee's authority to approve agency expenditures is revoked in USAS for any reason, the employee's security profile must be changed no later than the effective date of the revocation or termination to prevent the employee from executing electronic approvals for the agency. See [34 Texas Administrative Code Section 5.61\(k\)\(5\)\(A\)-\(B\)](#).

For signature cards, whenever a designated employee terminates employment with an agency, the Comptroller's office must receive notification of the employee's termination no later than the fifth day after the effective date of the employee's 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 security revocation requirements for terminated employees. It must also ensure the person responsible for sending the revocation notification to the Comptroller's office is aware of terminations on or before the termination date and follows up with the Comptroller's office to ensure receipt of the notification and ensure the revocation occurred.

Department Response

The agency's termination checklist will be modified to indicate if the Comptroller's Office has been notified to remove the HR or Finance employee from the signature card. Also, a biennial review of the signature card by the Chief Financial Office, will occur to ensure any employee that has left the agency, has been removed.

Missing Confidential Treatment of Information Acknowledgment Form

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 Confidential Treatment of Information Acknowledgment (CTIA) form. When



a new user requires access to the Comptroller's systems, the Department's security coordinator has the user read and sign the CTIA form. The agency's security coordinator must keep it on file for as long as the user has access to the systems plus five years. Auditors reviewed this requirement for 10 employees and audit tests revealed five employees who gained access to the systems before signing the CTIA form. According to the Department, it was unable to locate CTIA forms for the five individuals hired before January 2017, but the acknowledgements are now done and maintained in CAPPS.

Recommendation/Requirement

The Department should enhance its procedures to ensure no user gains access to any of the statewide financial systems before completing a CTIA form, and the acknowledgements are maintained for the required period of time.

Department Response

TMD now uses the Comptroller's CTIA system. Through its system, the Comptroller maintains acknowledgment records for the length of the users' employment or contract, plus five years.

Digital completion of the CTIA form Online is required as part of the agency's CAPPs access request procedure. The CAPPs security coordinator verifies that employees have completed the Online CTIA before processing the CAPPs access form.

CPA policy states acceptable CTIA must be either paper or electronic. See publication for details. https://fmx.cpa.texas.gov/fmx/systems/access/k015_003.php

Internal Control Structure

The review of the Department's internal control structure was limited to obtaining reports identifying current user access. The review did not include tests of existing mitigating controls.

Control Weaknesses Over Expenditure Processing

As part of the planning for the post-payment audit, auditors reviewed certain limitations the Department placed on its accounting staff's ability to process expenditures. Auditors reviewed the Department's security in USAS, the Texas Identification Number System (TINS) and voucher signature cards. Auditors did not review or test any internal or compensating controls the Department may have relating to USAS, or TINS security or internal transaction approvals.

The Department had two employees with multiple security capabilities. The audit tests revealed the following exceptions in user access:



- One employee was on the agency signature card, so the employee could approve a paper voucher for expedite and was on the Agency Authorization for Warrant Pickup list.
- A second employee could edit/update a vendor or employee profile in TINS and was on the agency signature card, so the employee could approve paper vouchers and edit direct deposit information for a vendor or an employee in TINS. The employee did not have system access to approve electronic vouchers.

According to the Department, some separation of functions did not occur due to limited staff, but this issue has been resolved.

Recommendation/Requirement

To reduce risk to state funds, the Department 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.

The Department should consider implementing the following recommendations:

- Limit user access by removing the user from the Department's signature card or by removing the user from the Department's Agency Authorization for Warrant Pickup list.
- Limit the access of users who can approve paper vouchers (being on the signature card) to view only access in TINS (PTINS02). An individual must not be able to change a vendor/employee direct deposit information/profile and approve a payment.

Department Response

The department took the recommended actions when items were discovered during the audit.



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 Department's payroll, purchase and travel transactions that processed through USAS and CAPPS from March 1, 2020, through Feb. 28, 2021, 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 the Department's documents comply in the future. The Department must ensure 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.