

INTERNAL AUDIT OF CASH DISBURSEMENTS
(Including Follow-up: Comptroller's
Post-Payment Audit Recommendations,
Dated August 1, 2018)

AS OF JUNE 12, 2020
AT THE
TEXAS ANIMAL HEALTH COMMISSION
(Report No: TAHC 2020-001)



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Audit Committee and Commissioners
Texas Animal Health Commission
Austin, Texas

We have conducted the internal audit (audit) of the Cash Disbursements (including follow-up: Comptroller's Post-Payment Audit Recommendations, dated August 1, 2018) at the Texas Animal Health Commission (Commission) as of June 12, 2020. Our objectives were to determine the reliability and integrity of information, compliance with policies, procedures, laws, and regulations, efficiency and effectiveness of operating procedures, and safeguarding of assets. The results of our audit disclosed that the Commission has implemented procedures and controls over the cash disbursement processes. We commend management for implementing most of the audit recommendations made in the Texas Comptroller of Public Accounts Post-Payment Expenditure Audit report. We encourage them to continue to make concerted efforts to ensure all required corrective actions are implemented.

We appreciate the courtesy and cooperation shown by the management of the Texas Animal Health Commission during the course of this engagement.

Monday Rufus & Co., P.C.

June 12, 2020
Austin, Texas

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Executive Summary

The Texas Animal Health Commission (TAHC) was founded in 1893 with a mission to address the Texas fever tick problem. Today, TAHC works to protect the health of all Texas livestock, including: cattle, swine, poultry, sheep, goats, equine family animals, exotic livestock.

The Commission's enabling statutes are in Chapters 161 through 168 of the Texas Agriculture Code, Vernon's Annotated Texas Statutes.

Title 4 of the Texas Occupations Code designated the Texas Animal Health Commission (TAHC) as the primary state agency with legislative authority to make and enforce regulations to prevent, control, and eradicate specific infectious animal diseases which endanger livestock.

In order to carry out these duties and responsibilities, the TAHC is authorized to control the sale and distribution of all veterinary biologics, except rabies vaccine; regulate the entry of livestock, domestic animals, and domestic fowl into the state; and control the movement of livestock.

For fiscal years 2020 and 2021 the General Appropriations Act authorized budgets of \$15,397,078 and \$15,396,649, respectively, and for each fiscal year a total of 220.2 full-time equivalent (FTEs) employees in region offices (including the Cameron County Fever Tick Response and State-Federal Laboratory Austin Office) throughout the State.

The TAHC Finance Services Department consists of eight (8) employees, with 4 who are responsible for processing purchase vouchers in the USAS and CAPPS systems. The Purchasing Department consists of three (3) employees who are involved in the procurement process of goods and services for the agency.

Summary of Internal Audit Results

The Commission has cash disbursement processes and controls in place to provide reasonable assurance that the Texas Animal Health Commission is in adherence and compliance with the State of Texas cash disbursement policies, procedures, laws and regulations.

The Commission has implemented corrective actions on most of the audit findings recommendations made in the Texas Comptroller of Public Accounts Post-Payment Expenditure Audit (Dated August 1, 2018). In order to ensure compliance with state purchasing requirements the Commission has developed written policies and procedures which are based on the Texas Procurement and Contract Management Guide procurement requirements. All purchases are being reviewed for management approval and must have proper supporting documentation before purchase vouchers are prepared and processed for payment. We commend management for implementing the recommendations in that report and encourage them to continue their efforts to ensure full compliance (See **Appendix 1**).

Summary of Management's Response

We appreciate the opportunity to continue to be a part of this process.

Objectives, Observations, Recommendations, and Management's Response

The primary objectives of the internal audit were:

1. Reliability and Integrity of Information
2. Compliance with Policies, Procedures, Laws, and Regulations
3. Efficiency and Effectiveness of Operating Procedures
4. Safeguarding of Assets

RESULTS

Internal Audit Objective 1: Reliability and Integrity of Information

The Commission personnel are experienced and knowledgeable of applicable state guidelines for processing cash disbursement vouchers.

Financial Services Department accounting personnel follow the State Comptroller of Public Accounts guidelines in the processing of purchase vouchers to ensure proper recording and reporting of transactions in the Uniform Statewide Accounting System (USAS) and Centralized Accounting and Payroll/Personnel System (CAPPS).

All Commission purchases are approved by respective management personnel before the procurement of goods or services. Purchase documents are reviewed by the Purchasing Department and Financial Services Department for compliance with the State Comptroller's procurement requirements and to ensure invoices and supporting documentation amounts agree with purchase vouchers being prepared for payment.

All purchase vouchers tested by the auditors had USAS and CAPPS supporting documentation. Purchase vouchers tested also included interagency transaction vouchers (ITV) and purchase vouchers with proprietary product/service which included a written justification document signed by the Commission Executive Director included in the supporting documentation.

There are employee controls to ensure segregation of duties regarding the entry into USAS/CAPPS and release of purchase vouchers for payment.

Internal Audit Objective 2: Compliance with Policies and Procedures, Laws, and Regulations

Purchase vouchers tested were paid timely in compliance with the Prompt Payment Act, Chapter 2251, Texas Government Code.

Purchase vouchers are signed by Commission employees listed with the State Comptroller's of Public Accounts as designated individuals authorized to approve Texas Animal Health Commission expenditures.

Commission management has implemented corrective actions on the State Comptroller's Office Post-Payment audit conducted in FY 2018 regarding procurement processes and controls, and processing of employee procurement requests using correct USAS and CAPPs purchase category codes.

Internal Audit Objective 3: Efficiency and Effectiveness of Operating Procedures

The Commission has updated the policies and procedures in the procurement process of goods and services by developing a pre-purchase checklist, templates, purchase guidelines, and quick reference documents. The revamped checklist was developed using the State Comptroller's Texas Procurement and Contract Management Guide is used by state agencies. Purchases will be monitored monthly with non-compliant purchasing exceptions being documented and reported monthly to TAHC executive management. The updated procedures are to establish consistency in similar purchases, ensure supporting documentation is complete and accurate, and that non-compliance issues with state procurement requirements are addressed on a timely basis.

Internal Audit Objective 4: Safeguarding of Assets

There is adequate segregation of duties among Commission personnel during the cash disbursement processes. There are several Commission personnel who participate in the requisition, purchasing, receiving, reviewing, approval, and signing of documents during the procurement and processing of cash disbursements. The Financial Services will not pay purchase vouchers if proper supporting documentation is not submitted with invoices received by the agency.

The Financial Services Department has controls in place to ensure that the same employees who input purchase voucher information into USAS and CAPPs are not involved in the release of purchase vouchers submitted for payment.

Appendix 1

Entity: Texas Animal Health Commission

Project: Follow-up on Comptroller’s Post Payment Audit (Dated: August 1, 2018)

PRIOR FINDINGS/RECOMMENDATIONS (Issued by the Comptroller’s Office and Management’s Response)	CURRENT STATUS	AUDITOR’S REMARKS
<p><u>Incorrect Lump Sum Vacation Payment</u></p> <p><u>Finding</u></p> <p>We identified two instances where the terminated employees’ lump sum payment for accrued vacation time were incorrectly calculated, resulting in overpayment of \$179.68 and \$247.74 to the employees. According to the Commission, these miscalculations were due to errors in manual calculations made during the transition from the Uniform Statewide Payroll/ Personnel System (USPS) to the Centralized Accounting and Payroll/Personnel System (CAPPS).</p> <p>The balance of the accrued vacation time must be completely allocated over the workdays following the effective date of the employee’s separation from state employment. Hours must be added for each state or national holiday that occurs during the period over which the time is allocated. See Texas Government Code, Section 661.064.</p> <p>We provided the Commission with the schedules and calculations of the incorrect payment amounts. They are not included with this report due to confidentiality issues.</p> <p><u>Recommendation/Requirement</u></p> <p>The Commission should improve its current payroll processes to prevent incorrect payments of accrued vacation time. The Commission should consider recovering the amount of overpayments in accordance with Texas Government Code, Chapter 666, unless it determines it is not cost effective to do so.</p>	<p>I</p>	<p>The auditors reviewed the current payroll processes with the Human Resource and Financial Services management and obtained monthly payroll reconciliation documentation and email correspondence for two months. The Commission’s monthly payroll payment amounts are reviewed and verified for accuracy by an employee from Financial Services and an employee from the</p>

<p><u>Brief summary of actions taken to ensure compliance:</u></p> <p><i>Prior to approval of payroll for release, both HR and FS will each have an employee verify that all payroll payment amounts are correct. The FS verifier will be different from the payroll officer working the payroll payment and also different from the employee that will release the payment.</i></p> <p><i>The Commission has reviewed the amounts of the overpayment and the amount of time that has passed. After Executive evaluation, the HR, FS, and Legal staff hours that would be expended in attempting to recover the accrued vacation time overpayments would exceed the amount of the actual accrued vacation time overpayments. The Commission will not be pursuing the accrued vacation time overpayments.</i></p>	<p>Human Resources Department prior to being released.</p> <p>The Financial Services employee who verifies the payroll accuracy is not involved in the payment or release of payroll. Emails are sent between the Financial Services and Human Resources Department when the payroll is approved.</p> <p>We commend management for implementing the recommendation in this area.</p> <p>The Commission has considered the recovery of the \$427.42 of incorrect payments of accrued vacation time and has determined that the cost of staff hours which would be expended by the different departments would exceed the amount being recovered.</p>
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Purchase Order Created After Invoice

Finding

We identified two transactions where the purchase orders (PO) were created after the invoices were received. When a PO is created after receipt of the invoice, it becomes difficult for the Commission to ensure it was not overcharged or billed for goods or services beyond those the Commission agreed to purchase. For one of the transactions, the Commission stated that the end-user did not notify the purchaser until after the goods and services were received, thus the purchaser was unable to ensure that the procurement requirements were being followed. In addition, the second transaction was due to a lack of defined roles and responsibilities for entering requisitions into CAPPS which caused a delay in issuing the purchase order.

[34 Texas Administrative Code Section 5.51\(c\)\(1\)\(D\)](#)

states that it is the general responsibility of a state agency and its officers and employees to ensure that “for each purchase document, the agency maintains necessary documentation for proving that each payment resulting from the document is legal, proper, and fiscally responsible.”

Recommendation/Requirement

The Commission must ensure that documentation of the agreement is created at the time the goods or services are ordered from the vendor. Once the Commission has made a final approved agreement with the vendor, the Commission may not pay any amount in excess of the agreed upon amount unless the vendor provides additional consideration to the Commission.

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The Commission has conducted Basic Purchaser Training class for all Commission procurement card holders for the purpose of purchaser education following the Commission's Post-Payment Audit.

The Commission has developed a process to document all non-compliant purchases submitted by issuing an *Employee Non-compliance Memorandum* document with a memo sent to the employee and his/her manager for an explanation regarding the purchase. The process will include a monthly report of all non-compliant purchases provided to the Chief of Staff.

<p><u>Brief summary of actions taken to ensure compliance:</u></p> <p><i>Commission personnel, authorized to buy items on behalf of the Commission, have been reminded that the purchase documentation MUST be completed and submitted for approval prior to making the purchase. This includes education of authorized Commission personnel on entry and approval of requisitions into the CAPPs system prior to purchase of goods and services. The Commission also conducted a Basic Purchaser Training class for all Commission procurement card holders on April 18, 2018, for the purpose of purchaser education following the Commission's Post-Payment Audit.</i></p> <p><u>Procurement Process Not Utilized</u></p> <p>We identified twelve contracts totaling \$310,633.90 where the Commission did not use the correct procurement process as required by the State of Texas Procurement and Contract Management Guide. The following issues were identified:</p> <ul style="list-style-type: none"> • Missing Centralized Master Bidders List (CMBL) • Request for Offer (RFO) purchase method not used • Missing Proprietary Justification Letter • Failure to report to the Vendor Performance Tracking System (VPTS) • Missing System For Award Management search documentation • Bid and evaluation criteria not followed 	<p>The auditors tested a sample of cash disbursements and noted in each case, the purchase orders were created prior to receipt of invoices.</p> <p>We commend management for implementing the recommendation in this area.</p>
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Finding – Missing CMBL Solicitation Documentation

We identified eight contracts where the Commission could not provide the documentation necessary to support its procurement process. The Commission was unable to provide profile printout listing all eligible suppliers dated prior to their respective awards. The Commission stated that it utilized the CMBL, but due to an oversight, it did not include a CMBL printout in the procurement file.

The CMBL is a database of registered vendors that includes contact information and a list of the goods and services each offers. Vendors pay a nominal annual fee to receive notification of opportunities for solicited commodities and/or services through an Invitation for Bid, Request for Proposal, Request for Offer or Request for Qualifications. Unless exempted by law, the CMBL must be used for all procurements subject to the Comptroller’s Statewide Procurement Division (SPD) authority. The CMBL must also be used to gather information for noncompetitive procurement processes and vendor performance data. Agencies must print out the awarded vendor’s CMBL profile showing the expiration date for file documentation. See the [State of Texas Procurement and Contract Management Guide – Centralized Master Bidders List](#). Proof that the CMBL system was checked prior to any award or contract renewal by State of Texas government entities must be obtained. See [Texas Government Code, Sections 2155.263 and 2155.264](#), and [34 Texas Administrative Code Section 20.107\(b\) and \(c\)](#).

Recommendation/Requirement

All agencies and institutions of higher education must use the CMBL for all purchases, including services for which competitive bidding or competitive sealed proposals are required. The Commission must maintain evidence that the CMBL vendors were contacted and include it in the contract file, as well as the bid tabulation that supports the contracted vendor selection.

Brief summary of actions taken to ensure compliance:

The Procurement department will follow the guidelines stated in the Procurement Manual on maintaining

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The Commission has developed the procurement revamped Checklist based on the State of Texas Procurement and Contract Management Guide and related purchase category codes which will show the employee the type of documentation required for each purchase during the procurement process including CMBL purchases.

We encourage management to continue making a concerted effort to ensure full compliance.

evidence that the CMBL vendors were contacted during the process.

The Commission has implemented a checklist for all purchase orders created. With the checklist in place for all purchase orders, the Commission can verify the procurement file and verify the required documentation is met for the purchase. Purchasing has implemented monthly audits of purchase orders to verify that state procurement processes are being followed and to correct any errors made.

Finding – Request for Offer Purchase Method Not Used

The Commission did not use the appropriate purchasing method for procuring information technology (IT) commodities and services for one contract. The Commission used the invitation for bid purchase method instead of using the Request for Offer (RFO) purchase method. The RFO purchase method is the appropriate method because it is specifically tailored for purchases of IT commodities and services, and allows the agency to negotiate the price of the IT contract with the vendor. The Commission stated it was an oversight.

According to the [State of Texas Procurement and Contract Management Guide – DIR Cooperative Contracts Program](#) and [34 Texas Administrative Code Section 20.391](#) the Request for Offers purchasing method is intended as the designated, primary purchasing method for procuring automated information systems/telecommunications commodities and services other than those under the Department of Information Resources' IT commodity purchase program.

The RFO method may be used in three instances under applicable law if:

1. The IT commodity or service is unavailable under DIR's IT commodity purchasing program;
2. The agency has obtained an exemption from DIR or approval from the Legislative Budget Board under [Texas Government Code, Section 2157.068\(i\)](#); or
3. The agency is otherwise exempt from [Texas Government Code, Section 2157.068](#).

<p><u>Recommendation/Requirement</u></p> <p>The Commission must ensure that the most appropriate purchase method is used when purchasing IT commodities and services.</p> <p><u>Brief summary of actions taken to ensure compliance:</u></p> <p><i>The wrong purchase method was used by mistake. The Commission had made note of this mistake and will begin to use the Request for Offer for all future IT commodities and services.</i></p> <p><i>The Commission has implemented a checklist for all purchase orders created. With the checklist in place for all purchase orders, the Commission can verify the procurement file and verify the required documentation is met for the purchase. Purchasing has implemented monthly audits of purchase orders to verify that state procurement processes are being followed and to correct any errors made.</i></p> <p><u>Finding – Missing Proprietary Justification Letter</u></p> <p>One contract was missing the proprietary justification letter signed by the agency head or authorized agency representative. The Commission explained that it was an oversight.</p> <p>A proprietary product is one where the specifications or conditions of the proposed purchase allow only one product to be supplied, and preclude any other product or supplier from meeting the specifications. When the specification limits consideration to one product or supplier, a written proprietary purchase justification must be in the procurement file.</p> <p>For purchase of commodities costing \$25,000 or more, the procurement file should include a formal letter on agency letterhead with an open market requisition submitted to the Statewide Procurement Division</p>	<p>I</p>	<p>The Commission has developed templates used for formal and informal procurement methods of Request for Offers purchases.</p> <p>The revamped procurement Checklist Purchase Category Codes (PCC) determine the most appropriate procurement method to be used at the beginning of the solicitation process.</p> <p>We commend management for implementing the recommendation in this area.</p>
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(SPD). The formal letter should include a justification, signed by the agency head or designee as provided in the Procurement Plan.

The agency letter should include:

- The justification of the need for the proprietary specification or scope of work.
- The reason competing products are not suitable.
- Any other applicable information requested by SPD to further explain the justification.

See [Texas Government Code, Section 2155.067\(C\)](#) and [State of Texas Procurement and Contract Management Guide](#) – Proprietary Purchases.

Recommendation/Requirement

A proprietary product or service is one that has a distinctive characteristic not shared by competing products or services. When the specification limits consideration to one manufacturer, one product or one service provider, the Commission must include a written proprietary purchase justification in the procurement file.

Brief summary of actions taken to ensure compliance:

During the process of transitioning over to CAPPS, paper work was missed.

The Commission has implemented a checklist for all purchase orders created. With the checklist in place for all purchase orders, the Commission can verify the procurement file and verify the required documentation is met for the purchase. Purchasing has implemented monthly audits of purchase orders to verify that state procurement processes are being followed and to correct any errors made.

Finding – Failure to report to the Vendor Performance Tracking System

We identified seven contracts where the Commission did not report contracts and purchases over \$25,000 to SPD’s Vendor Performance Tracking System (VPTS). The Commission stated it was an oversight.

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The Commission has developed Proprietary Purchase Guidelines which requires that justifications are pre-approved by the agency head or designee prior to processing a proprietary purchase.

During the auditors testing of cash disbursements we noticed that payments for proprietary purchases had written proprietary purchase justification documentation signed by the Commission executive director.

We commend management for implementing the recommendation in this area.

The SPD administers a vendor performance tracking system for use by all ordering agencies per [34 Texas Administrative Code Section 20.115\(b\)](#). The VPTS relies on participation by ordering agencies to gather information on vendor performance. All agencies shall report vendor performance on purchases over \$25,000 from contracts administered by SPD or any other purchase over \$25,000 made through delegated authority granted by SPD. Ordering entities are also encouraged to report vendor performance for purchases under \$25,000. The requirement also calls for the provision of supporting documentation. The Vendor Performance Report (VPR) is submitted electronically, by the agency, utilizing the VPTS. See [State of Texas Procurement and Contract Management Guide – Monitoring Methods-Vendor Performance Reports](#).

Recommendation/Requirement

The Commission must begin reporting contracts and purchases to VPTS in order to:

- identify vendors demonstrating exceptional performance
- aid purchasers in making a best value determination based on vendor past performance
- protect the state from vendors with unethical business practices
- identify vendors with repeated delivery and performance issues
- provide performance scores in four measurable categories for CMBL vendors
- track vendor performance for delegated and exempt purchases
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See [State of Texas Procurement and Contract Management Guide – Contract Close-Out](#).

Brief summary of actions taken to ensure compliance:

The Commission has resolved the VPTS issues and has reported all purchases over \$25,000, as required by the state.

The Commission has implemented a checklist for all purchase orders created. With the checklist in place for all purchase orders, the Commission can verify the procurement file and verify the required documentation

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The auditors reviewed and obtained documentation on the vendor performance reporting reconciliation by the Commission with the Statewide Procurement Division’s Vendor Performance Tracking System database for vendor performance on purchases over \$25,000 for fiscal year 2019.

We commend management for implementing the recommendation in this area.

is met for the purchase. Purchasing has implemented monthly audits of purchase orders to verify that state procurement processes are being followed and to correct any errors made.

Finding – Missing System for Award Management Search Documentation

We identified one contract where the Commission did not provide the required System for Award Management (SAM) search printout dated prior to its respective contract awards. The Commission stated it was an oversight.

Agencies must not award contracts to vendors who have been barred from contracting by the federal government. The SAM is the electronic database of the Lists of Parties Excluded from Federal Procurement and Non-procurement Programs. The list identifies those vendors excluded throughout the U.S. government (unless otherwise noted) from receiving federal contracts or certain subcontracts and from certain types of federal financial and non-financial assistance and benefits. The SAM system must be checked seven days prior to any purchase, award or contract renewal being made by state of Texas government entities. See [State of Texas Procurement and Contract Management Guide – Vendor Compliance Verifications- SAM Check](#).

Recommendation/Requirement

The Commission must conduct a SAM search prior to any purchase, award or contract renewal. Because SAM may update these databases more than once in a 24-hour period, a final check of the Special Designated Nationals (SDN) listing must be made prior to any contract award. This is to ensure the Commission does not award contracts to any person or vendor whose name appears on the SDN list. A copy of the SAM search results from the specified website must be used as evidence of the vendor search being performed by the agency and must be included in the contract file.

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During the auditors testing of cash disbursement it was noted that a SAM search list was included in the cash disbursements supporting documentation to ensure improper payments are not made to vendors or contractors whose names appear on the SDN list.

We commend management for implementing the recommendation in this area.

Brief summary of actions taken to ensure compliance:

A copy of the SAM results will be attached to all procurement files.

The Commission has implemented a checklist for all purchase orders created. With the checklist in place for all purchase orders, the Commission can verify the procurement file and verify the required documentation is met for the purchase. Purchasing has implemented monthly audits of purchase orders to verify that state procurement processes are being followed and to correct any errors made.

Finding – Bid And Evaluation Criteria Not Followed

We identified one contract where the Commission did not have documentation to prove that it obtained bids from multiple vendors and was missing bid tabulations. The Commission stated that the end-user obtained the services from the vendor without notifying the purchaser, thus the purchaser was unable to ensure the procurement requirements were being followed.

The bid or proposal solicitation document is the first official evidence to the vendor community that an ordering entity intends to procure a good or service. The solicitation document serves as official instructions for the ordering entity’s requirements and how the vendor(s) will be selected. It is imperative that the agency include terms and conditions specific to the agency’s solicitation, regardless of the type of solicitation document used.

The Commission must use the open market informal solicitation method for all contracted services between \$5,000 and \$25,000. Open Market Formal Solicitation is used for agency-administered open market purchases of services greater than \$25,000 and for commodities delegated by SPD or through statutory authority specific to an agency. See [*State of Texas Procurement and Contract Management Guide*](#) – Summary of Minimum Requirements for Delegated Purchases.

Failing to obtain bids from multiple vendors increases the risk of the Commission paying more for a good or service than necessary and not selecting the most optimal good or service and the most qualified provider the market can offer.

Brief summary of actions taken to ensure compliance:

Commission personnel, authorized to buy items using Commission procurement cards on behalf of the Commission, upon determining that the purchase will exceed \$500, will contact the FS and Purchasing divisions for warrant hold status on that vendor. FS & Purchasing will inform the requester of the status via email. The email will be retained with the PO and Voucher information. In the event that the requester did not verify warrant hold status and upon realization of this, the FS department will notify employee and employee's supervisor of violation.

The Commission has implemented a checklist for all purchase orders created. With the checklist in place for all purchase orders, the Commission can verify the procurement file and verify the required documentation is met for the purchase. Purchasing has implemented monthly audits of purchase orders to verify that state procurement processes are being followed and to correct any errors made.

Incorrect Billing Account Number Finding

We ran a report outside of the samples to identify potential payments processed incorrectly to third-party vendors during the audit period. During our review of this report, we identified 28 payments processed incorrectly to the state's payment card vendor. The incorrect payments totaled \$30,528.93. The Commission failed to provide the correct billing account number as prescribed by [Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements \(FPP A.043\)](#) and [USAS and CAPPS Financials Invoice Number Field Requirements \(FPP E.023\)](#). As a result, the vendor may not be able to directly post payments to the Commission's payment and travel card accounts. The Commission stated that it was unaware of the requirements regarding the invoice number field.

Purchasing Department for purchases greater than \$500 for pre-approval. The Purchasing Department will validate the vendor hold status prior to approving the purchase.

The Commission is also developing a Non-Compliant Memo Template which will be used to communicate all purchase vouchers and p-card transactions which were in noncompliance each month.

We encourage management to continue making a concerted effort to ensure full compliance.

<p><u>Recommendation/Requirement</u></p> <p>The Commission must enhance its procedures to ensure payments for third-party transactions are processed in accordance with FPP A.043 and FPP E.023. To avoid any account delinquency or reconciliation issues, we recommend the Commission review payment card statements to ensure the payments were posted correctly.</p> <p><u>Brief summary of actions taken to ensure compliance:</u></p> <p><i>The Commission did not know at the time of the audit that multi-vendor vouchers in CAPPs did not use the Billing Account number listed in the Header Line. Now the Commission does know, and FS is now processing these transactions according to the FPP's listed above. FS staff verify that the vouchers are in accordance with the state payment disbursement policies during the voucher approval process, prior to release in CAPPs.</i></p> <p><u>Control Weakness Over Expenditure Processing</u></p> <p><u>Finding</u></p> <p>As part of our planning process for the post-payment audit, we reviewed certain limitations that the Commission placed on its accounting staff's ability to process expenditures. We reviewed the Commission's security in USAS, USPS, TINS and voucher signature cards that were in effect on Jan. 22, 2018. We did not review or test any internal or compensating controls that the Commission may have relating to USAS, USPS, or TINS security or internal transaction approvals.</p> <p>The Commission had four employees who could pick up warrants from the Comptroller's office and were on the agency signature card, which enables employees to approve paper vouchers. Three of those same four employees could also adjust payment instructions in TINS. Additionally, two of these employees could process and release payments through USAS. The Commission explained that due to its accounting staffing limitations it had some overlapping</p>	<p>I</p>	<p>Auditors met with the Financial Services management to review the verification process being used to ensure payments for third-party transactions are being properly processed. Previously management was not aware that processing third-party transactions in CAPPs required a different process than USAS. The Commission has corrected the incorrect billing issue by having the Financial Services staff verify that vouchers are entered in accordance with the state payment disbursement policies. Finance personnel that review purchase vouchers do not release the vouchers for payment. We commend management for implementing the recommendation in this area.</p>
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<p>responsibility in its transaction approval process. The Commission was provided with a schedule of this finding during fieldwork.</p> <p>To reduce risks to state funds, agencies should have controls over expenditure processing that segregate each accounting task to the greatest extent possible. Ideally, no individual should be able to process transactions within the statewide systems without another person's involvement.</p> <p>We ran a report to see whether any of the Commission's payment documents were processed through USAS during the audit period because of the action of only one person; no issues were identified.</p> <p><u>Recommendation/Requirement</u></p> <p>To reduce risks to state funds, agencies should 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.</p> <p>We strongly recommend that the Commission implement the following recommendations:</p> <ol style="list-style-type: none"> 1. The Commission must limit user access by removing the user from the Agency Authorization for Warrant Pickup list or by removing the users from the agency's signature card. 2. The Commission must limit the access of users who can enter/change voucher or release/approve batch in USAS to view only access in TINS (PTINS02). An individual must not be able to create a vendor or change a vendor profile, create a payment and approve the payment. 	<p>I</p> <p>N</p>	<p>Auditors obtained the current list of the Commission's signature cards. All users listed on the Commission's signature card during the post-payment audit have been removed from the Agency Authorization for Warrant Pickup list.</p> <p>We commend management for implementing the recommendation in this area.</p> <p>Based on the auditors discussion with the Commission's Financial Services management, the Commission is willing to accept the risk identified due to the established user authorizations which are set up so that no individual is able to fully</p>
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<p>3. The Commission should elect to have the document tracking control edit on the Agency Profile (D02) set to either:</p> <p style="padding-left: 40px;">Prevent a user from releasing a batch that the same user entered or altered for the agency</p> <p style="text-align: center;">–OR–</p> <p style="padding-left: 40px;">Warn the user when the same user attempts to release his or her own entries or changes. See USAS Accounting and Payment Control (FPP B.005).</p> <p>4. The Commission must review the preventive and detective controls over expenditure processing discussed in FPP B.005, such as the Risky Document Report (DAFR9840) which identifies documents that the same user entered or altered and then released for processing.</p> <p><u>Brief summary of actions taken to ensure compliance:</u></p> <p><i>The TAHC is willing to accept the risk identified in this report because our implemented controls over expenditure processing already segregate each accounting task to the greatest extent possible. The Financial Services department at the TAHC is a small staff and due to this, it is difficult to separate all duties to the level deemed appropriate in the corrective action plan. However, there is a complete separation of duties throughout the expenditure process. The TAHC has always established user authorizations so that no individual is able to fully process transactions without another person's involvement.</i></p>	<p style="text-align: center;">I</p> <p>process transactions without another person being involvement.</p> <p>Management should continue to evaluate the controls to ensure mitigation of any risk.</p> <p>The auditors have determined that the Agency Profile (D02) has been updated and set to prevent a user from releasing a batch that the same user entered or altered for the agency.</p> <p>We commend management for implementing the recommendation in this area.</p> <p style="text-align: center;">I</p> <p>The auditors have determined that the Commission has setup the Risky Document Report (DAFR9840) to run weekly.</p> <p>We comment management for implementing the recommendation in this area.</p>
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<p><i>The Commission has reviewed the identified list of “individuals who have abilities to process expenditures without oversight” and has taken the following action. Two individuals have been removed from the Agency Authorization for Warrant Pickup list.</i></p> <p><i>Detection of inappropriate activity will be possible as a result of agency procedures. These procedures include requiring documentation for changes to payment instructions via the completion of a Payee Change Request form, the approval of that form and entry into TINS by a second individual, and daily verifications of payments on USAS reports. Furthermore, all payment registers, (Direct Deposits, Warrants, Holds, and Interagency Transfers) are reviewed daily by multiple employees within the department in order to detect inappropriate activity.</i></p> <p><i>No individual is able to enter a transaction into CAPPs, USAS, USPS, or SPRS and release within that same system. The CAPPs system prevents individuals from entering and approving the same voucher. Therefore, every payment in CAPPs will require two users for processing. Similarly, user authority for USAS, USPS, and SPRS is established so that those with release authority do not have entry capabilities within the same system. This control also prevents any individual from processing a transaction without another person’s involvement.</i></p> <p><i>TAHC warrants are habitually picked up by the Procurement and Support Services Division of the Comptroller of Public Accounts and delivered to TAHC daily. TAHC employees only pickup warrants in extremely rare cases. Historically, the pickup authority is only utilized to expedite the distribution of 1099s and W2s when the distribution deadline is near.</i></p>		

I – IMPLEMENTED

P- PARTIALLY IMPLEMENTED

N -NOT IMPLEMENTED

Appendix 2

Objective, Scope, and Methodology

Objective

The primary objectives of the internal audit were to determine the following:

- *Reliability and Integrity of Information*
- *Compliance with Policies, Procedures, Laws, and Regulations*
- *Efficiency and Effectiveness of operating procedures*
- *Safeguarding of assets*

Scope

The scope of the audit work included ensuring compliance with the Texas Animal Health Commission's cash disbursements operating policies and procedures and required legislative reporting requirements. The scope included interviews with the Commission's Director of Financial Services, Purchasing Manager, Chief of Staff, and appropriate department staff. Cash disbursement processing forms and reports, policies and procedures, and other pertinent reports and documents were tested for accuracy and compliance.

Methodology

Meetings were held with the Director of Financial Services and Purchasing Manager to obtain documents and reports relating to the functions and procedures used in the processing of cash disbursements and identify controls in place to ensure the cash disbursement process is monitored, reviewed, and in compliance with written policies and procedures. We analyzed and tested transactions, reviewed access to and controls for the cash disbursement system, analyzed and evaluated the results of the audit results.

Data Reliability and Completeness

We reviewed payment data from the Commission's disbursement system. To ensure reliability, validity, and completeness of the cash disbursement data, we gained an understanding of logical access and general controls and tested those controls as appropriate.

Sampling Methodology

We selected random samples of payments from different categories of payments. Those sample sizes were not necessarily representative of the population as the intent was not to project test results to the population.

Information collected and reviewed included the following:

- Texas Animal Health Commission FY 2019 Procurement Policies and Procedures manual
- Texas Animal Health Commission Fiscal Year 2019 General Appropriation Act Budget
- Texas Animal Health Commission Annual Financial Report for Fiscal Year 2019
- State Comptroller’s Post-Payment Audit Report (Dated August 1, 2018)
- State Auditor’s Office Audit Reports
- Internal Auditors Reports
- Texas Animal Health Commission Website
- Texas Animal Health Commission Strategic Plan (2018-2019)

Procedures and tests conducted included the following:

- Interviewed Commission executive management and staff to obtain an understanding of the cash disbursement processes and controls.
- Reviewed FY 2019 agency procurement policies and procedures or guidelines
- Reviewed Purchasing Department’s procurement processes, required approval documents, and supporting procurement documentation.
- Reviewed Financial Services cash disbursement processes (USAS, CAPPs), activities, required forms, and management approval process.
- Randomly selected test samples of cash disbursements processed from fiscal year 2019 for compliance testing.
- Tested cash disbursement transactions processed for compliance with the Commission policies and procedures and for supporting documentation.
- Tested for controls in place in processing cash disbursement transactions and compliance with making timely payments.

Criteria Used included the following:

- Cash Disbursements policies and procedures
- State Comptroller’s Office Uniform Statewide Accounting System (USAS) and **CAPPs** requirements.
- State Auditor’s Office annual financial reporting requirements
- Texas Animal Health Commission Website
- Review of Other pertinent reports and documents

Other Information

Our audit was conducted in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit also conforms with the Institute of Internal Auditor’s (IIA) *International Standards for the Professional Practice of Internal Auditing*.

Appendix 3

Background

In 1893, the agency was initiated to fight the Texas Cattle Fever epidemic, which had created a nationwide problem. Since then, the Texas Animal Health Commission (Commission) and the United States Department of Agriculture (USDA) have worked cooperatively with livestock producers on animal health issues. In recent years, the agency's primary objectives have been to control and eradicate livestock diseases, such as: Brucellosis in cattle and swine; tuberculosis in cattle; goats and cervidae; hog cholera in swine; pseudorabies in swine; scabies in cattle and sheep; Venezuelan equine encephalomyelitis (VEE); and equine infectious anemia (EIA) in horses.

The Commission's enabling statutes are in Chapters 161 through 168 of the Texas Agriculture Code, Vernon's Annotated Texas Statutes. The Commission is vested with the responsibility of protecting all livestock, domestic animals, and domestic fowl from diseases stated in the statute, or recognized as maladies by the veterinary profession. The Commission is authorized to act to eradicate or control any disease or agency of transmission for any disease that affects livestock, exotic livestock, domestic animals, domestic fowl, exotic fowl, or canines, regardless of whether or not the disease is communicable. In order to carry out these duties and responsibilities, the Commission is authorized to control the sale and distribution of all veterinary biologics, except rabies vaccine; regulate the entry of livestock, domestic animals, and domestic fowl into the state; and control the movement of livestock.

To carry out its mission, the Commission is supported by the veterinary community, competent laboratory system and epidemiology activities which oversee the diagnosis of diseases, and assures appropriate tracing of the movement of exposed and infected animals to determine the origin of infection and minimize the transmission of disease.

The Commission is composed of thirteen members who are appointed by the Governor with the advice and consent of the Senate. The Governor designates the Chair.

The Commissioners appoint an Executive Director who supervises the Commission's activities. The Commission's operating budget is prepared and approved by the Commissioners on an annual basis, whereas the State legislative appropriation request is determined every two years. Both the budget and appropriations are reviewed and approved by the State Legislature.

The Commission is funded by a combination of state general revenue funds, federal funds from the U.S. Department of Agriculture (USDA), and fee-based revenue. For fiscal year 2019 the Commission had an authorized workforce of 220.2 full-time equivalent employees (FTEs). The Commission's staff is comprised of field inspectors, veterinarians, veterinary epidemiologists, laboratory personnel, emergency management planners, field investigators, and administrative staff.

Appendix 4

Report Distribution

As required by Gov't Code 2102.0091 copies of this report should be filed with the following:

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