

**Audit Report # 362-05-01**

# **Post Payment Audit of the Texas Lottery Commission**

**Fiscal Management  
Claims Division  
Expenditure Audit Section**

**March 8, 2006**



**Carole Keeton Strayhorn  
Comptroller of Public Accounts**

**Auditor: Priscilla Salomon, CPA**



CAROLE KEETON STRAYHORN  
Comptroller

# COMPTROLLER OF PUBLIC ACCOUNTS

P.O. BOX 13528  
AUSTIN, TX 78711-3528

March 8, 2006

Anthony J. Sadberry  
Acting Executive Director  
Texas Lottery Commission  
611 East 6<sup>th</sup> Street, 3<sup>rd</sup> Floor  
Austin, TX 78701-3744

Dear Mr. Sadberry:

We have completed a post-payment audit of certain payroll, purchase, travel, lottery winnings, bingo, lottery operator fees, and refunds of revenue transactions of the Texas Lottery Commission (Commission). We would like to commend the Commission for the timely acquisition of all documentation requested for the audit. Also, the Commission responded to additional inquiries and requests in a professional and timely manner. We would like to thank your staff, especially Kathy Pyka, Ben Navarro, and Arlette Taylor. We greatly appreciate their professionalism, responsiveness, and cooperation in assisting us with this audit.

Our purpose was to determine whether the Commission's expenditures complied with certain state laws and rules concerning expenditures and with the processing requirements of the uniform statewide accounting system. The Commission is responsible for ensuring that its staff is knowledgeable in those areas.

A corrective action plan that addresses the instances of payment or documentation errors detailed within this report must be submitted to our office. The plan must provide for appropriate improvements in the control structure related to the Commission's payment process and show expected dates of implementation. Enclosed is a corrective action plan that must be completed and signed by management. An electronic copy of the plan is available upon request. The plan must be received by our office not later than April 7, 2006.

We intend for this report to be used by the Commission's management and certain state officials and agencies as listed in Tex. Gov't Code Ann. § 403.071 (Vernon 1998). However, the final audit report is a public record, and its distribution is not limited.

We also identified some issues involving the Commission's procedures for processing expenditures. These items do not have a monetary impact to the state and they have been communicated to Kathy Pyka, Chief Financial Officer. The Commission must incorporate additional procedures for improvement in these areas.

Thank you for your cooperation. If we can be of any further assistance, please contact Priscilla Salomon through e-mail at ([priscilla.salomon@cpa.state.tx.us](mailto:priscilla.salomon@cpa.state.tx.us)) or call 463-4003.

Sincerely,

Joani Bishop  
Manager  
Claims Division

Enclosure

cc: C. Tom Clowe, Chairman, Texas Lottery Commission  
Kathy Pyka, Chief Financial Officer, Texas Lottery Commission  
Catherine Melvin, Internal Audit Director, Texas Lottery Commission  
Priscilla Salomon, Auditor, Comptroller of Public Accounts

## EXECUTIVE SUMMARY

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We audited a sample of payroll, purchase, travel, lottery winnings, bingo, lottery operator fees, and refunds of revenue transactions processed through the uniform statewide payroll system (USPS) and the uniform statewide accounting system (USAS) during the period beginning February 1, 2004, through January 31, 2005. Each transaction in the sample was audited and the payment errors projected to estimate the amount of unaudited transactions that were improperly paid. We believe that the audit provides a reasonable basis for the findings set forth in the attached report.

We did not audit transactions relating to revenue generated by the Texas Lottery Commission (Commission). Therefore, we have no opinion on the Commission's funding of lottery winnings.

### Overall Conclusion

Our audit of the Commission revealed the following:

- Incorrect payments of longevity pay totaling \$580.00 were found outside the sample.
- Several of the payroll files we examined had missing or incorrect documentation.
- Purchase transactions resulted in four payment errors involving incorrect amounts paid to vendors.
- Several of the purchase transactions lacked the documentation we needed to determine whether the resulting payments were valid.
- Several transactions did not include prompt payment interest when due.
- During our review of the purchase transactions, we found several issues concerning written contracts with vendors. One contract for a building lease contains a balance in the tenant improvement allowance. In addition, one contract failed to include a contingency clause and/or a cancellation clause. These omissions resulted in unnecessary expenditures of state funds.
- The Commission lacks written verification procedures for the payment of advertising services.
- Travel transactions yielded a payment error rate of 0.12%.
- The Commission failed to correct transactions in the Texas Identification Number system (TINS) suspense file in a timely manner. This finding has been identified in previous audits as well.
- We identified duplicate reimbursements to the Commission's local funds of \$27,000.00.
- We also identified a control issue regarding one Commission employee's security in USAS.
- Two employees retained the security to process payment documents after termination.

The Comptroller of Public Accounts is required by law to properly audit all claims submitted for payment through the Comptroller. Therefore, all payment transactions are subject to audit regardless of amount or materiality.

The appendices to this report illustrate how we calculated the error percentages and provide schedules of the errors found. No errors were projected in the sampled payroll or purchase transactions. No errors were projected in our limited review of the lottery winnings, grants, lottery operator fees, and refunds of revenue transactions because the errors identified were outside the sample.

We believe that the recommendations listed in the Detailed Findings of this report should be implemented. It is the responsibility of the Commission to seek refunds for all overpayments, unless the Commission determines it is not cost effective to do so. If necessary, we may take the actions set forth in Tex. Gov't Code Ann. sec. 403.071(h) (Vernon 2005) to ensure that the Commission's documents comply in the future. The Commission must ensure that the findings discussed in this report are resolved.

## EXECUTIVE SUMMARY

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### **Follow-up to Prior Audit:**

We concluded a prior post-payment audit of the Commission's payroll, purchase, travel, lottery winnings, bingo, and lottery operator service fee transactions on April 9, 2002. There were no projections from the payroll, travel, lottery winnings, bingo, and lottery operator service fee transactions. Errors found in the prior audit that also occurred in the current audit include purchase order amended after invoice received and terminated employee retaining ability to expend funds. We also noted several findings in the current audit that were not identified in the prior audit. The Commission must improve procedures in the payroll, purchase, travel, and security areas due to the reoccurrence, volume, and nature of the errors.

### **Expanded Summary of Findings:**

**PAYROLL** We reviewed payroll transactions for compliance with the General Appropriations Act, the *State of Texas Payroll Policies and Procedures Guide*, and other pertinent authorities. Our audit of the Commission's payroll transactions resulted in findings concerning incorrect payments of longevity pay and missing/incorrect documentation. These findings were caused by inadequate verification of prior state service and data entry errors. The missing/incorrect documentation increases the probability that additional improper payments occurred that could not be detected by normal audit procedures.

**PURCHASE** During the audit, we observed certain procedural deficiencies that allowed payments to be made without proper documentation or with documentation that was created after receiving the invoice. The lack of documentation increases the probability that additional improper payments occurred that could not be detected by normal audit procedures. We identified one vendor contract that did not include a contingency clause or cancellation clause. Because of the omission, the Commission paid excessive fees to cancel the contract. We also observed a few payment errors involving incorrect amounts paid.

This audit included an examination of the Commission's compliance with the prompt payment and scheduling laws. During the audit period, the Commission paid \$597.21 in prompt payment interest. Total purchase expenditures for the audit period were \$63,857,639.72. In our sample, we found eleven instances where the Commission did not pay interest to the vendor when it was due. In addition, the Commission did not schedule payments for eleven transactions which resulted in a loss of interest to the state treasury.

**TRAVEL** In our review of the travel transactions, we observed instances where employees failed to obtain authorization by the agency head prior to claiming actual expenses. In addition, one employee was incorrectly reimbursed for fuel expenses. The Commission could not provide documentation to support one travel transaction.

**OTHER TRANSACTIONS** We conducted a limited review of 11 lottery winnings, 13 bingo tax allocations, 12 lottery operator fees, and 18 refunds of revenue transactions. This review consisted of verifying that the payments resulting from these transactions did not exceed the authorized amounts. We found no significant errors. As a result, no projections were made from these transactions. The review of these particular transactions did not include an investigation of the Commission's procedures for issuing payments made to lottery winners; therefore, we do not have an opinion about those procedures.

## EXECUTIVE SUMMARY

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**SECURITY** We also reviewed the Commission's voucher signature cards and electronic approval security that were effective during the audit period. Specifically, we reviewed lists of employees designated to approve expenditures effective during the audit period and all related correspondence, as well as the employees' USAS and USPS security to execute electronic approvals for the Commission. The Commission failed to submit a request to remove two employees' security in USAS and USPS to electronically approve the Commission's expenditures on or before the effective date of the employees' termination. We also noted an internal control issue that must be addressed. One Commission employee had the ability to adjust payment instructions in TINS and approve vouchers.

**SPA REVIEW** We selected a limited number of fixed assets that were acquired by expenditures during our audit period. We verified that the assets are in their intended location and are properly recorded in the State Property Accounting System.

### OTHER AUDITOR OBSERVATIONS

The Commission maintains a building lease agreement for its Austin headquarters. The original lease agreement and the two contract extensions each contain a tenant improvement allowance totaling an estimated \$1,240,000. According to the contract, the vendor maintains the funds in escrow and any interest earned is paid to the vendor. At the end of the lease term, the balance of the tenant improvement allowance will be returned to the Commission. According to the Commission, the tenant improvement allowance included in the original contract was related to the Commission's original occupation of the building. The tenant improvement allowances included in each of the contract extensions were not intended for a specific purpose at the time the contracts were signed, but were funds made available to the Commission in the event modifications to the building were required over time.

In addition, the building lease agreement appears to include a dollar per square foot rate above the average rate for typical office space in the downtown area. Austin Office MarketView published by CB Richard Ellis lists average lease rates for the downtown Austin area. The average lease rates are categorized by Class A, B, and C, with Class A being the highest rate. According to the Austin Office MarketView, the Commission's rate is in line with a Class A facility. According to CoStar Group, a provider of researched real estate information, the property is classified as a Class B office building. We recommend that the Commission conduct research and take action to address the dollar per square foot that is paid to the vendor. This would assist in reducing its costs to the state.

During our audit of the purchase transactions, 61 of the 220 transactions in our sample were for advertising services provided by two vendors. Because of the volume of documentation for each transaction, the review consisted of verifying that the payments resulting from these transactions did not exceed the authorized amounts. At the time of fieldwork, the Commission did not have written procedures to address these purchases. We recommend that the Commission document the verification procedures that have been implemented. The Commission is in the process of documenting these procedures. The Commission's internal audit plan includes a review of the efficient, effective, and economical use of advertising funds.

We found that the Commission had over four hundred transactions that remained in a suspense file in TINS because lottery winners' identification numbers were not properly set up. Because of the urgency to replenish funds used for lottery winnings, the Comptroller agreed to allow these reimbursements to process by bypassing TINS edits with the understanding that the Commission would set up the lottery winners in TINS within thirty days. Because TINS is the system of record for payments, it is important that all lottery winners are set up properly for inquiry and reporting purposes. This issue has been identified in two prior audits of the Commission.

## EXECUTIVE SUMMARY

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The number of transactions in the suspense file was over one thousand for the Commission's initial audit. Because of the Commission's temporary improvements made to the suspense file during the second audit, all remaining transactions in the suspense file were cleared. The Commission's third audit resulted in over three hundred transactions in the suspense file. As a result of this audit, the Commission has reduced the number of transactions that remain in a suspense file from 466 to 27 transactions.

The Commission also requested duplicate reimbursements from USAS for the same expense. The duplicate reimbursements were discovered through reports provided to the Commission during our audit. According to the Commission, both duplicate reimbursements occurred through the processing of voided transactions at the Commission's claim centers.

### **Commission Response**

*The Commission does not concur with the auditor's observation related to the Austin headquarters lease for the following reasons:*

- 1. The significant tenant finish dollars provided under the Grant Building lease provide the Commission the flexibility towards achieving its mission in generating revenue to the Foundation School Fund as the agency can move quickly when the Commission adds new activities or programs.*
- 2. The agency has expended approximately \$1.9 million of appropriated agency funds, not related to the tenant improvement allowance, since the inception of the Grant Building lease in improvements to the infrastructure of the lease space. All of these expenditures were necessary to the mission of the agency. From a cost/benefit perspective, relocating the agency to another facility in the near future would not be economical as similar improvements would be necessary in any facility occupied by the Commission.*
- 3. The solid predictability of lease costs as a result of the "full service" rental rate obtained under the Grant Building lease is critical to the ongoing development and monitoring of our agency budget and appropriation strategy. No projections are needed regarding insurance rates, utility costs, taxes or the like.*
- 4. The Commission has reviewed the "full service" dollar per square foot paid for the Grant Building and continues to find its rate competitive to the data referenced in the CB Richard Ellis report.*

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**Contributing Auditors**  
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Anna Calzada  
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## DETAILED FINDINGS – PAYROLL

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### INCORRECT PAYMENT OF LONGEVITY PAY

#### **Finding**

We identified two instances where eligible employees were underpaid longevity pay and two instances where employees were overpaid longevity pay.

The underpayments and overpayments of longevity pay resulted from inadequate lifetime service credit verification procedures and data entry errors. For three of the four employees, the Commission had the lifetime service credit verification forms on file, but either the service dates were entered incorrectly or the service credit was never entered into USPS. Another employee was incorrectly given credit for prior service at a junior college.

Some of these errors occurred while a state employee was entitled to longevity pay to be included in the employee's monthly compensation if the employee had accrued at least five years of lifetime service credit not later than the last day of the preceding month. Act of May 4, 1993, 73rd Leg., R.S., ch. 268, sec. 1, 1993 Tex. Gen. Laws 583, 704. Other errors occurred while an increase in longevity pay was effective beginning with the month following the month in which the 6<sup>th</sup>, 9<sup>th</sup>, 12<sup>th</sup>, 15<sup>th</sup>, 18<sup>th</sup>, 21<sup>st</sup>, 24<sup>th</sup>, 27<sup>th</sup>, 30<sup>th</sup>, 33<sup>rd</sup>, 36<sup>th</sup>, 39<sup>th</sup>, and 42<sup>nd</sup> years of lifetime service credit were accrued. Tex. Gov't Code Ann. sec. 659.044(c) (Vernon 2004).

The errors identified are reported as actual overpayment and underpayments during the employee's employment with the Commission and will not be projected against the audit transaction population of payroll payments.

#### **Recommendation/Requirement**

The Commission must compensate the employees who were underpaid longevity pay. The Commission should consider recovering the overpayments of longevity pay in accordance with Chapter 666, Government Code.

The Commission must amend its procedures to ensure that properly completed service verification forms are obtained for its employees and all resulting data entry from these forms properly matches the information provided. It is the Commission's responsibility to follow through and conduct a complete internal review to verify lifetime service credit data and to ensure payments are correct for all employees.

#### **Commission Response**

*The Commission agrees with the auditor's recommendation. Commission procedures will be amended to ensure that properly completed service verification forms are obtained for employees and the data is properly entered into USPS. The Commission is presently performing an internal review of lifetime service credit data for all Lottery Commission employees.*



## DETAILED FINDINGS – PAYROLL

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### MISSING/INCORRECT DOCUMENTATION

#### **Finding**

We found that the Commission had seventeen employees that were either missing documentation from the employee personnel files or had incorrect information in USPS. Four of these files had incorrect documentation and lacked documentation of one of the following: lifetime service credit verification, a signed W4 form, or a copy of the social security card.

For seven of the seventeen personnel files, the files lacked the lifetime service credit verifications needed to verify the accuracy of longevity payments. For five of the seventeen personnel files, the Commission did not have a signed W4 form or a copy of the social security card. As a result of the audit, the Commission obtained the required documentation.

For nine of the seventeen personnel files, the information in USPS did not match the information in the personnel files. In correcting the information in USPS, there were no significant changes to the service dates. Because the service dates in most cases only changed by a few days, there was no effect on longevity pay.

Due to the confidential nature of personnel information, a schedule of these errors will not be included in the report. The schedule was provided to the Commission during audit fieldwork.

#### **Requirement/Recommendation**

The Commission must establish written procedures to address how documentation in employee files should be kept and ensure the procedures are followed, especially when there are changes to payroll personnel. Additionally, we recommend training of the Commission employees in matters pertaining to personnel/payroll processing and documentation.

#### **Commission Response**

*The Commission agrees with the auditor's recommendation. Commission procedures will be developed to address how documentation is maintained in employee files. Training is currently being provided to Commission employees in matters pertaining to personnel/payroll processing and documentation.*

## DETAILED FINDINGS – PURCHASE

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### INCORRECT AMOUNT PAID

#### Finding

We identified four transactions in which the Commission paid more than the amount that was agreed upon in the purchase order.

For one transaction, the Commission failed to reduce the monthly service payment to reflect the new amount specified in the amended contract. The amendment reduced the monthly payment by 10% effective September 1, 2004. According to the Commission's procedures, after a contract or amended contract is approved and signed, the contract terms and amounts are entered onto a purchase order by the purchasing department. The accounts payable department verifies the amounts on the invoice to the purchase order. The amended contract information was not reflected on the purchase order or the invoice. As a result, the accounts payable department was not aware of the monthly service payment reduction and overpaid the vendor \$10,305.00. Since the audit fieldwork, the Commission has obtained a credit from the vendor.

Two transactions paid a vendor an amount based on an incorrect formula used to calculate electricity charges. According to the terms specified within the building lease agreement, the vendor provides all utilities for the lease space with the exception of the separately metered items that are billed directly to the Commission. The formula used by the vendor to calculate the separately metered items included additional items not in the contract formula. Since the audit, the Commission has obtained a credit and refund from the vendor in the amount of \$7,659.16.

On the fourth transaction, the Commission paid the amount on the invoice and amended the original purchase order to match the invoiced amount.

A purchase agreement is a contract entered into between the Commission and the vendor. The Commission may pay only the amount shown on the purchase agreement. A purchase agreement may be amended to require the Commission to pay additional amounts only if the vendor provides a new benefit, i.e., consideration, to the Commission. Any amendments to the original purchase agreement should be documented prior to the services being performed or the goods being received.

#### Recommendation/Requirement

The Commission must set up effective proofing controls to ensure that it pays the correct amounts to its vendors. The Commission must compare the invoice to the purchase agreement prior to processing a purchase voucher. The Commission must ensure that the amount paid does not exceed the purchase agreement unless the agreement is amended due to the vendor providing additional consideration to the Commission.

#### Commission Response

*The Commission agrees with the auditor's recommendation. Controls have been put in place to ensure that the correct amount is paid to vendors. All payment vouchers are now reviewed by the Controller prior to payment. In May 2005, the Commission revised its Purchase Order Change Notice process. Purchase Orders must be revised to reflect any amendments to the purchase order or contract and a copy of the revised purchase order is provided to the accounts payable department. All amendments to the original purchase order must now be approved by the Office of the Controller.*

## DETAILED FINDINGS – PURCHASE

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### MISSING DOCUMENTATION AND PURCHASE AGREEMENT CREATED AFTER INVOICE OR SERVICES RENDERED

#### Finding

We identified four transactions in which the Commission lacked the documentation we needed to determine the validity of the payments. An additional four transactions had purchase orders which were created after the invoice or services were rendered.

One transaction was not supported by documentation of an agreed upon price. The purchase agreement did not specify the rate to be charged. All agreements should specify the price agreed upon or an estimated price if the exact price is not known. This prevents vendors from charging amounts greater than the amount originally agreed.

Two transactions lacked documentation proving that the items purchased were received prior to payment. One of the two transactions reimbursed an employee for the purchase of software. The other transaction paid for fees that included newspaper advertising services. These transactions were entered into the Commission's accounting system as services. As a result, the goods received with the service were not indicated as received in the accounting system. During the audit, the Commission provided the auditor with the goods to indicate that most of the items were received. Receipt of goods and verification should be completed prior to processing the payment to the vendor. By not entering the receiving information at the time the services are performed, the Commission is relying on the employee's memory to verify that the services were performed and that the goods were received.

One transaction lacked documentation proving that the items were received as well as the vendor invoice, and purchase agreement. According to the Commission, the purchase order was for an expense incurred in fiscal year 2002 and paid with fiscal year 2004 funds. The documentation was filed with fiscal year 2002 records and has been destroyed. No other documentation was available. The Commission must maintain all necessary documentation to support a purchase. Without documentation of the agreement, we could not determine if the correct amounts were paid.

We identified three expenditures in which the Commission did not prepare a purchase agreement until after the vendor had invoiced for the goods or service, and an additional expenditure where a purchase agreement was not prepared until after the services were rendered. The purchase agreement was not documented prior to the invoice due to employee turnover. Without documenting the purchase agreement with the vendor, the Commission allows the vendor to invoice the Commission for any amount the vendor chooses. In the three noted cases, when the purchase agreement was created after the goods or services were provided, the Commission agreed to the vendor's price after the fact.

34 Tex. Admin. Code sec. 5.51(c)(1)(D) (2005) states that it is the responsibility of the state agency and its officers to "ensure for each purchase document, the agency maintains necessary documentation for proving that each payment resulting from the document is legal, proper, and fiscally responsible."

## DETAILED FINDINGS – PURCHASE

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### **Recommendation/Requirement**

In the future, the Commission must document and retain copies of all agreements made with vendors. The agreements should specify the agreed upon prices and quantities. By following this procedure, the Commission would be informed of exactly what was ordered and at what price and quantity before the time of payment. This would help to avoid possible overpayments.

The Commission must ensure that documentation of the agreement is prepared 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 agreement is amended due to the vendor providing a new benefit, i.e., consideration, to the Commission.

The Commission must ensure that no payment is made without sufficient supporting documentation. This documentation must be available during a post-payment audit, a pre-payment audit, or at any other time required by the comptroller. 34 Tex. Admin. Code sec. 5.51(e)(2) (2005). The documentation must also be maintained in agency files at least until the end of the second appropriation year after the appropriation year in which the document is processed by USAS. 34 Tex. Admin. Code sec. 5.51(e)(5)(A) (2005).

### **Commission Response**

*The Commission agrees with the auditor's recommendation. Procedures are being updated to reflect additional requirements for the processing and retention of purchase orders and the associated documents. A "check list" is now included with each purchase order file to verify the requirements of the file have been met. Additionally, correspondence has been provided to all Commission employees regarding unauthorized purchases and also reminding employees of specific requirements for processing purchase requests.*

### UNCONSTITUTIONAL DEBT

#### Finding

During the audit, we identified one transaction that was supported by a contract that did not include language to prevent the creation of an unconstitutional debt. The contract committed future appropriations that were not in existence at the time the agreement was made. There was no provision in the contract that conditioned the Commission's financial obligations strictly on the availability of sufficient appropriations. The contract also lacked a provision that addressed cancellation of the contract.

In December 2002, the Commission entered into a five year contract for the lease of a vehicle for the period beginning January 2003 through 2008. Contracting for services for January 2003 through 2008 committed appropriations that were not in existence at the time the agreement was made. The contract was cancelled effective August 2004. According to the Commission, it was required to cancel the contract as a result of the state vehicle fleet management plan. Tex. Gov't Code Ann. sec. 2171.104 (Vernon Supp. 2005). The purpose of the plan was to improve the administration and operation of the state's vehicle fleet. The guidelines established in the plan set minimum use criteria and consolidation policies for agency fleets. Vehicles failing to meet the minimum use criteria are identified and disposed. According to the plan, the vehicle was not necessary based on the size of the agency. As a result, the Commission cancelled the contract prior to its termination date incurring an early termination fee of \$7,500.

Attorney General Opinion JM-394 (1985) states:

Article III, section 49 [of the Texas Constitution] prohibits the state from creating debts and prevents contraction on the basis of anticipated revenues. The state may enter into an indefinite or long-term binding contract involving the expenditure of appropriated funds if payment is conditioned on the availability of appropriated funds.

Op. Tex. Att'y Gen. No. JM-394 (1985).

If a state agency is a party to a contract and the term of the contract extends beyond the expiration of appropriations that are in effect when the contract is entered into, the contract must contain a provision that specifically conditions the agency's financial obligations under the contract on the availability of sufficient appropriations. See Section 5.012 of the *State of Texas Purchase Policies and Procedures Guide (Purchase Guide)*.

#### Recommendation/Requirement

The Commission may not enter into a contract that extends beyond the life of current appropriations unless the contract specifically conditions the Commission's financial obligations under the contract on the availability of sufficient appropriated funds. The Commission should consider requiring all its contracts to include a cancellation provision to avoid incurring excessive cancellation fees.

## DETAILED FINDINGS – PURCHASE

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### **Commission Response**

*The Commission agrees with the auditor's recommendation. All current contracts include a cancellation provision irregardless if the contract extends beyond the life of current appropriations. All purchasing and contracts personnel have been instructed to include cancellation provisions in purchase orders and contracts.*

## DETAILED FINDINGS – PURCHASE

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### **PAYMENTS PAST THE PROMPT PAYMENT DEADLINE AND PAYMENTS NOT SCHEDULED**

#### **Finding**

According to the prompt payment law, a state agency's payment is overdue on the 31st day after the latest of:

- the date the agency receives the goods under the contract;
- the date the vendor completes performing its services for the agency; or
- the date the agency receives an invoice for the goods or services.

The Comptroller computes and automatically pays any interest due under the prompt payment law. Tex. Gov't Code Ann. § 2251.026(b)-(c), (e)-(f) (Vernon Supp. 2005).

The Commission paid a total of \$597.21 in automatic interest during the audit period. We identified eleven transactions that should have paid interest. Nine of the eleven were travel transactions. The projected amount of interest not paid was \$325.91. See Appendix 2.

Tex. Gov't Code Ann. § 2155.382(d) (Vernon 2000) authorizes the Comptroller to allow or require state agencies to schedule payments that the Comptroller will make to a vendor. The Comptroller must prescribe the circumstances under which advance scheduling of payments is allowed or required; however, the Comptroller must require advance scheduling of payments when it is advantageous to the state. Id.

We found eleven transactions that were not scheduled properly, resulting in a projected amount of interest lost to the state treasury of \$1,492.82. Six of the eleven transactions were direct billed travel transactions. See Appendix 2.

According to the Commission, travel transactions were not set up for prompt payment or scheduling in the internal accounting system.

#### **Recommendation/Requirement**

The Commission must review its procedures to see if the payment information could be submitted for processing in a more timely manner to avoid incurring interest liabilities.

Effective September 1, 2004, the Commission must schedule all payments for invoices greater than \$5,000 for the latest possible distribution and in accordance with its contracts as described in the Notice to State Agencies (NSA) FM04-54 on payment scheduling.

#### **Commission Response**

*The Commission agrees with the auditor's recommendation. While there are limitations in the Commission's internal accounting system regarding payment scheduling, the Commission has internal procedures for manual scheduling of payments. All payments that incur an interest liability are reviewed and discussed with the responsible staff.*

**DUPLICATE REIMBURSEMENT**

**Finding**

We found two duplicate transactions that were processed through USAS as reimbursements to the Commission. The transactions were identified through a report generated as a part of the audit process to identify possible duplicate transactions. According to the Commission, both duplicate reimbursements occurred through the processing of voided transactions at the Commission's claim centers.

**Recommendation/Requirement**

The Commission must properly review all reimbursement requests to ensure the requests are for valid payments and not duplicated because of any processing errors and system programming issues.

**Commission Response**

*The Commission agrees with the auditor's recommendation. The Commission has revised its procedure for voided transactions to ensure duplicate reimbursements are not processed.*



### INCORRECT AMOUNT PAID

#### Finding

We identified two instances where employees were reimbursed in excess of the allowable amount. The employees claimed actual lodging expenses while attending a conference. The supporting documentation included a memo stating that actual expenses were claimed due to traveling with the director of charitable bingo operation division. We also examined the travel vouchers of the director of charitable bingo operation division and found one travel voucher in which actual lodging expenses were reimbursed without prior approval from the executive director.

The director of charitable bingo operation division approved the employee's actual meals and lodging expenses and also claimed actual meals and lodging based on Tex. Occ. Code Ann. secs. 2001.051, 2001.052 (Vernon 2004). The Commission believed the Bingo Director was a chief administrative officer of a state agency because he reports directly to the three-member Lottery Commission rather than to the executive director of the Commission, and has administered the Bingo Division independent of the supervision of the executive director. See Tex. Gov't Code Ann. secs. 467.031, 467.033 (Vernon 2005). The Comptroller does not agree that this criteria equates to being a chief administrative officer.

According to Tex. Gov't Code Ann. sec 660.206(b) (Vernon 2004), only a member of the legislature, a judicial officer, a chief administrator of a state agency, the executive director of the Texas Legislative Council, the secretary of the senate, and a board member may authorize a state employee traveling with the authorizing party to a particular meeting or conference to receive reimbursement for the actual expenses of the employee's meals and lodging on the trip.

The director of charitable bingo operation division is not the chief administrator of the Commission, and therefore, cannot authorize actual meal and lodging expenses. A chief administrator of a state agency is the executive director of a state agency that is governed by a part-time board. See Tex. Gov't Code Ann. sec 660.002(4) (Vernon 2004). The executive director is the individual who has the daily responsibility for managing the operations of a state agency that is headed by a board. See Section 1.02(S) of the *State of Texas Travel Allowance Guide (Travel Guide)*.

In addition, the charitable bingo operation division is not an independent state agency, but a division of the Commission. The executive director of the Commission employs the director of charitable bingo operation division and the division director serves at the will of the executive director. Tex. Gov't Code Ann. secs. 467.031, 467.033 (Vernon 2004).

Further, the executive director of the Commission, not the director of charitable bingo operation division administers the Bingo Enabling Act. Tex. Gov't Code Ann. sec. 467.101(a)(1) (Vernon 2004).

## DETAILED FINDINGS – TRAVEL

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### **Recommendation/Requirement**

We recommend that the Commission strengthen its procedures to ensure that all travel vouchers are properly examined prior to payment to ensure compliance with all applicable regulations and limitations. By following this procedure, the Commission would be able to verify that prior authorization was obtained and approved prior to travel. A refund should be pursued from the employees, unless the Commission determines it is not cost effective to do so.

In addition, Commission staff should attend training classes related to travel guidelines provided by the Comptroller's Office to obtain an increased understanding of the Travel Regulations Act and the travel rules included in the *Travel Guide*.

### **Commission Response**

*The Commission agrees with the auditor's recommendation, but does not concur with the statements about the laws that govern the Lottery Commission. The Audit Report cites sections 467.031, 467.033 and 467.101 of the Government Code to support its conclusion that the Charitable Bingo Operations Division (CBOD) is not a separate state agency. The Audit Report cites these provisions for the propositions the Executive Director employs the director of the CBOD, that the director of CBOD serves at the will of the executive director, and that the Executive Director administers the Bingo Enabling Act. These provisions, however, predate the 1997 amendments to the Bingo Enabling Act that changed the law to provide that the Commission, not the Executive Director, employs the Director of Charitable Bingo and that the Director of Charitable Bingo, not the Executive Director, administers the bingo division of the Lottery Commission. Acts. 1997, 75<sup>th</sup> Legislature, ch. 1009, Section 7. The amendments to the Bingo Enabling Act prevail over the earlier-enacted provisions in chapter 467 of the Government Code.*

*The Commission has modified its procedures to ensure that all travel vouchers are properly examined prior to payment to ensure compliance with all applicable regulations and limitations. Commission staff responsible for auditing travel vouchers attended travel training in October 2005. Finally, current Commission policy requires prior authorization from the Commission's Executive Director for reimbursement of all Commission employees out-of-state travel expenses, including actual expense reimbursement.*

### **Comptroller Response**

According to Tex. Gov't Code Ann. sec 660.206(a-b) (Vernon 2004), the bingo director may only claim actual expenses for meals and lodging when a legislator, a judicial officer, a chief administrator of a state agency, the executive director of the Texas Legislative council, the secretary of the senate, or a board member designates the bingo director to represent the designating party at a particular meeting or conference or if the bingo director is traveling with the designating party. The original or a copy of the document designating the state employee to represent the designating party at the meeting or conference must be included in the supporting documentation. The document must have been written before the travel occurred and must indicate the approximate cost of the travel. See Tex. Gov't Code Ann. sec 660.208 (Vernon 2004).

### MISSING DOCUMENTATION

#### **Finding**

We found one travel transaction that paid for travel expenses without the required supporting documentation.

The Commission used the central billing account for an airfare expense but could not provide documentation of the airfare receipt or travel voucher/form. The airfare receipt includes itemized costs that are needed to adequately verify that the contracted rates are utilized. In addition, without the receipt we could not substantiate the payment.

The voucher requirement for Section 3.13(b) of the *Travel Guide* states that the supporting documentation must include a statement that the original receipt is unavailable if it is not provided as part of the documentation supporting the travel expenditure.

The supporting documentation for a travel document must include a travel voucher/form and supporting documentation for each transaction in the document. The supporting documentation must satisfy the requirements specified in the *Travel Guide*. See Section 8.03 of the *Travel Guide* for a description of the required information which must be on the travel voucher/form.

#### **Recommendation/Requirement**

The Commission must ensure that it has adequate supporting documentation for all expenditures. This documentation must be available during a post-payment audit, a pre-payment audit, or at any other time required by the comptroller. 34 Tex. Admin. Code sec. 5.51(e)(2) (2005). The documentation must also be maintained in agency files at least until the end of the second appropriation year after the appropriation year in which the document is processed by USAS. 34 Tex. Admin. Code sec. 5.51(e)(5)(A) (2005).

#### **Commission Response**

*The Commission agrees with the auditor's recommendation. Proper supporting documentation is required for all expenditure payments. The Commission has recently completed a records retention review for all financial records in accordance with the Commission's Records Retention Plan. Filing procedures will be revised in the near future to ensure that payment files are maintained on a fiscal year basis rather than the date the purchase order is issued.*

## DETAILED FINDINGS – EXPENDITURE APPROVALS

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### **EMPLOYEES RETAINING SECURITY TO ELECTRONICALLY APPROVE EXPENDITURES AFTER TERMINATION**

#### **Finding**

During the audit period, two employees retained the security that allowed them to electronically approve Commission expenditures in USAS and USPS after their termination dates.

The Commission sent notice of one employee's termination to the Comptroller six days after that employee's termination. The Commission sent notice of the other employee's revocation to the Comptroller seven days after that employee's revocation. Because the employees retained the security in USAS and USPS that allowed them to electronically approve Commission expenditures, the employees could have continued to approve and process Commission expenditures after their authority was revoked. Any expenditure the employees would have electronically approved after their effective dates of termination would have constituted unapproved expenditures.

For an employee whose authority to approve an agency's expenditures is revoked for any reason, the employee's USAS and USPS security profile must be changed not later than the effective date of the revocation to prevent the employee from executing electronic approvals for the agency. See 34 Tex. Admin. Code sec. 5.61(k)(5)(A)-(B) (2005).

#### **Recommendation/Requirement**

The Commission must ensure that it removes a designated employee's security that permits the employee to electronically approve expenditures not later than the effective date of the employee's termination of employment with the Commission or revocation of the employee's designation, whichever occurs first.

#### **Commission Response**

*The Commission agrees with the auditor's recommendation. Future security revisions for employees with access to USAS and USPS will be performed in a timely manner.*

## DETAILED FINDINGS – EXPENDITURE APPROVALS

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### CONTROLS OVER EXPENDITURE PROCESSING

#### **Finding**

As part of our planning process for the post-payment audit, we reviewed certain limitations the Commission placed on its accounting staff members' abilities to process expenditures. We reviewed the Commission's security in USAS, USPS, and TINS and the Commission's voucher signature cards that were effective on February 25, 2005. 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.

We noticed that the Commission had one employee who had the security in TINS to adjust payment instructions, and approve vouchers. Regardless of any internal procedures or compensating controls the Commission may have, issuing employees security to alter and approve payment documents without oversight brings a greater risk to the Commission's funds. This is because there currently is no technical means for the Commission to prevent employees from using security that is properly issued to them.

#### **Recommendation/Requirement**

Although this employee is no longer with the Commission, the Commission should continue to review the controls over expenditure processing and segregate each task to the extent possible to ensure that no individual is able to process payment without oversight. The Commission must establish and document mitigating controls where this segregation is not possible.

#### **Commission Response**

*The Commission agrees with the auditor's recommendation. The Commission performed a comprehensive review of controls over expenditure processing in October 2005 to ensure proper segregation of duties. The Commission will continue to review controls over expenditure processing and segregate each task to the extent possible to ensure that no individual is able to process payment without oversight.*

## **APPENDICES**

Summary of Sample Errors Detected

Audit period: February 1, 2004 through January 31, 2005

USPS - GROUP 1 PAYROLL TRANSACTIONS

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)
A	\$0.00	\$275.00	100	\$0.00	\$7,821.94	.000000	\$367,312.03	\$0.00
B	\$275.01	\$10,000.00	100	\$0.00	\$345,655.19	.000000	\$14,216,347.58	\$0.00
C	\$10,000.01	\$999,999,999.99	4	\$0.00	\$45,076.76	.000000	\$45,076.76	\$0.00
					(F)	(G)	(H)	(I)
							\$14,628,736.37	\$0.00

USPS - GROUP 2 TRAVEL TRANSACTIONS

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)
A	\$0.00	\$999,999,999.00	11	\$0.00

No projections were made from this group

USAS - GROUP 1 PURCHASE TRANSACTIONS

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)
A	\$0.00	\$1,500.00	100	\$0.00	\$30,337.12	.000000	\$1,492,181.41	\$0.00
B	\$1,500.01	\$460,000.00	100	\$0.00	\$2,719,536.70	.000000	\$47,935,174.80	\$0.00
C	\$360,000.01	\$999,999,999.99	20	\$0.00	\$14,430,283.51	.000000	\$14,430,283.51	\$0.00
					(F)	(G)	(H)	(I)
							\$63,857,639.72	\$0.00

USAS - GROUP 2 TRAVEL TRANSACTIONS

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)
A	\$0.00	\$550.00	100	\$0.00	\$9,192.17	.000000	\$333,127.44	\$0.00
B	\$550.01	\$999,999,999.99	100	\$390.00	\$73,875.62	.005779	\$96,510.01	\$509.48
					(F)	(G)	(H)	(I)
							\$429,632.45	\$509.48

USAS - GROUP 3 LOTTERY WINNINGS TRANSACTIONS

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)
A	\$0.00	\$1,000.00	4	\$0.00
B	\$1,000.01	\$200,000.00	3	\$0.00
C	\$200,000.01	\$999,999,999.00	4	\$0.00

No projections were made from this group

USAS - GROUP 4 BINGO TRANSACTIONS

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)
A	\$0.00	\$999,999,999.00	13	\$0.00

No projections were made from this group

USAS - GROUP 5 LOTTERY OPERATOR FEE TRANSACTIONS

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)
A	\$0.00	\$999,999,999.00	12	\$0.00

No projections were made from this group

USAS - GROUP 6 REFUNDS OF REVENUE TRANSACTIONS

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)
A	\$0.00	\$999,999,999.00	18	\$0.00

No projections were made from this group

Legend

- Sample Error Rate (C) = (A) ÷ (B)
- Projected Errors (E) = (C) X (D)
- Group Error Rate (F) = (H) ÷ (G)
- Group Population Base (G) = sum of Population Bases (D)
- Group Projected Errors (H) = sum of Projected Errors (E)
- Total Population Base (I) = sum of Group Population Bases (G)
- Total Projected Errors (I) = sum of Group Projected Errors (H)

Note:

All dollar amounts rounded to the second decimal place.  
All error rates rounded to the sixth decimal place.

TOTAL PROJECTION

Total Population Base (I)	Total Projected Errors (I)
\$78,916,006.54	\$509.48

Amount to Report

PROJECTION OF PROMPT PAYMENT AND SCHEDULING ISSUES

Audit period: February 1, 2004 through January 31, 2005

GROUP 1 - PURCHASE: INTEREST NOT PAID TO VENDORS ON LATE PAYMENTS

A	\$0.00	\$1,500.00	100	\$0.39	\$30,537.12	.000013	\$1,492,181.41	\$19.40
B	\$1,500.01	\$360,000.00	100	\$15.05	\$2,719,536.70	.000006	\$47,935,174.80	\$287.61
C	\$360,000.01	\$999,999,999.99	20	\$0.00	\$14,430,283.51	.000000	\$14,430,283.51	\$0.00
				(F)	(G)	(H)		
				.000005	\$63,857,639.72			\$307.01

GROUP 1 - PURCHASE: INTEREST LOST TO TREASURY BY NOT SCHEDULING PAYMENTS

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)
A	\$0.00	\$1,500.00	100	\$0.81	\$30,537.12	.000027	\$1,492,181.41	\$40.29
B	\$1,500.01	\$360,000.00	100	\$63.36	\$2,719,536.70	.000023	\$47,935,174.80	\$1,102.51
C	\$360,000.01	\$999,999,999.99	20	\$0.00	\$14,430,283.51	.000000	\$14,430,283.51	\$0.00
				(F)	(G)	(H)		
				.000018	\$63,857,639.72			\$1,142.80

GROUP 2 - TRAVEL: INTEREST NOT PAID TO VENDORS ON LATE PAYMENTS

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)
A	\$0.00	\$550.00	100	\$0.32	\$9,192.17	.000035	\$333,122.44	\$11.66
B	\$550.01	\$999,999,999.99	100	\$5.52	\$73,875.62	.000075	\$96,510.01	\$7.24
				(F)	(G)	(H)		
				.000044	\$429,632.45			\$18.90

GROUP 2 - TRAVEL: INTEREST LOST TO TREASURY BY NOT SCHEDULING PAYMENTS

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)
A	\$0.00	\$250.00	100	\$0.21	\$8,871.16	.000024	\$1,250,335.06	\$30.01
B	\$250.01	\$999,999,999.99	100	\$1.58	\$731,779.95	.000002	\$160,003,615.91	\$320.01
				(F)	(G)	(H)		
				.000002	\$161,253,950.97			\$350.02

Legend

Sample Error Rate (C) = (A) ÷ (B)
Projected Errors (E) = (C) X (D)
Group Error Rate (F) = (H) ÷ (G)
Group Population Base (G) = sum of Population Bases (D)
Group Projected Errors (H) = sum of Projected Errors (E)

Note:

All dollar amounts rounded to the second decimal place.  
All error rates rounded to the sixth decimal place.



**SCHEDULE OF ERRORS**  
**USPS Group 1- Payroll**  
**Payment Errors**

Finding	Amount in Error
Incorrect Payment of Longevity - Overpayment	\$120.00
Incorrect Payment of Longevity - Overpayment	\$280.00
Incorrect Payment of Longevity - Underpayment	\$60.00
Incorrect Payment of Longevity - Underpayment	\$120.00
<b>Total Amount in Error</b>	<b>\$580.00</b>

**SCHEDULE OF ERRORS**  
**USAS Group 1 - Purchase**  
**Payment Errors**

<b>Stratum Doc # Sfx</b>	<b>Type of Error</b>	<b>Vendor Name</b>	<b>Amount of Error</b>
B 90118005 001	Incorrect Amount Paid	KAMPFE/DE STIJL INC	\$1,119.66
B 90607007 001	Incorrect Amount Paid	GRANT BUILDING-AUSTI	\$288.94
B 91115058 003	Incorrect Amount Paid	GRANT BUILDING-AUSTI	\$333.78
B 91201201 001	Incorrect Amount Paid	VERICENTER INC	\$1,030.50
<b>Total Amount in Error</b>			<b>\$2,772.88</b>

**SCHEDULE OF ERRORS**  
**USAS Group 1 - Purchase**  
**Documentation Errors**

<b>Stratum</b>	<b>Doc #</b>	<b>Sfx</b>	<b>Type of Error</b>	<b>Vendor Name</b>
A	20129006	001	Missing Documentation - Invoice & Agreement Missing Documentation - Receiving	XEROX CORP
A	20226021	001	Purchase Agreement Created after Invoice	THOMAS E BOYER
A	90103011	001	Purchase Agreement Created after Invoice	TELECLIP INC
A	90103011	001	Purchase Agreement Created after Invoice	TELECLIP INC
A	91013211	001	Purchase Agreement Created after Services Rendered	COX TEXAS NEWSPAPERS
A	91208202	001	Missing Documentation - Receiving	AVANTSTAR INC
B	90524004	001	Missing Contingency Clause Missing Cancellation Clause	LONGHORN INTERNATIONAL
B	90714203	001	Missing Documentation - Receiving	REGENT BROADCASTING
B	90727215	002	Missing Documentation- Agreed Upon Rates	METROCALL INC

## SCHEDULE OF ERRORS

### Interest Not Paid

Stratum	Doc #	Suffix	Vendor Name	Prompt Pay Date	Distribution Date	Days Late	Transaction Amount	Interest Not Paid
A	10121008	002	ROBERT E	20041220	20050124	5	\$458.90	\$0.31
A	10121012	002	REAGAN E	20041220	20050124	5	\$10.75	\$0.01
A	90503003	001	ROCKHURST	20040401	20040507	6	\$199.00	\$0.39
B	10826002	001	NED HENRY	20040720	20040827	8	\$620.20	\$1.63
B	10826007	001	NED HENRY	20040720	20040827	8	\$620.20	\$1.63
B	10826010	002	MARK COLE	20040720	20040827	8	\$620.20	\$1.63
B	11216003	002	MARK COLE	20041116	20041217	1	\$580.20	\$0.08
B	11216007	001	EDWARD A	20041116	20041217	1	\$1,335.50	\$0.18
B	11216008	002	MICHAEL R	20041116	20041217	1	\$1,335.50	\$0.18
B	11216010	002	TONI	20041116	20041217	1	\$1,342.50	\$0.18
B	91027202	001	STATE FAIR OF	20041017	20041118	2	\$54,929.58	\$15.05
<b>Total Interest Not Paid</b>								<b>\$21.29</b>

\* Prompt Pay date is the latest of the 3 days used for prompt payment as defined in Tex. Gov't Code Ann. secs. 2251.001-2251.043 (Vernon 2000).

\* Distribution Date is the first day the payment was available to the vendor.

## SCHEDULE OF ERRORS

### Interest Loss to Treasury

<b>Stratum</b>	<b>Doc #</b>	<b>Suffix</b>	<b>Vendor Name</b>	<b>Prompt Pay Date</b>	<b>Distribution Date</b>	<b>Days Early</b>	<b>Transaction Amount</b>	<b>Interest Loss to Treasury</b>
A	10505015	002	MARSHALL	20040419	20040506	13	\$172.20	\$0.09
A	10827011	001	DIANA L JOHNS	20040817	20040830	17	\$173.70	\$0.12
A	91202206	009	SOURCING 1	20041123	20041203	20	\$1,017.28	\$0.81
B	10505010	001	NED HENRY	20040419	20040506	13	\$620.20	\$0.32
B	10505012	001	DAVID G ROYAL	20040419	20040506	13	\$581.40	\$0.30
B	10505014	002	TAMMY	20040419	20040506	13	\$581.40	\$0.30
B	10827016	002	EDWARD A	20040817	20040830	17	\$973.60	\$0.66
B	90511002	001	SCIENTIFIC	20040421	20040512	9	\$94,139.95	\$33.84
B	90712A22	001	SCIENTIFIC	20040622	20040716	6	\$107,073.36	\$25.66
B	91013219	001	ETADEL INC	20041006	20041014	22	\$2,980.00	\$2.62
B	91123203	004	EXECUTIVE	20041101	20041124	7	\$4,412.50	\$1.23
<b>Total Interest Loss to Treasury</b>								<b>\$65.97</b>

\* Prompt Pay date is the latest of the 3 days used for prompt payment as defined in Tex. Gov't Code Ann. secs. 2251.001-2251.043 (Vernon 2000).

\* Distribution Date is the first day the payment was available to the vendor.

**SCHEDULE OF ERRORS****USAS Group 2 - Travel****Payment Errors**

<b>Stratum</b>	<b>Doc #</b>	<b>Sfx</b>	<b>Type of Error</b>	<b>Vendor Name</b>	<b>Amount of Error</b>
B	10616002	003	Incorrect Amount Paid	PHILIP D SANDERSON	\$195.00
B	106160A3	003	Incorrect Amount Paid	MARGARET A AHMAD	\$195.00
<b>Total Amount in Error</b>					<b>\$390.00</b>

**SCHEDULE OF ERRORS**  
**USAS Group 1 - Travel**  
**Documentation Errors**

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<b>Stratum</b>	<b>Doc #</b>	<b>Sfx</b>	<b>Type of Error</b>	<b>Vendor Name</b>
B	11015001	001	Missing Documentation	JUAN M RIOS JR

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**SCHEDULE OF ERRORS****Employees Retaining Security to Expend Funds after Authority Expired**

Employees who terminated employment, or whose authority was revoked, that kept release security in USAS or USPS after authority expired.

<b>Employee Name:</b>	<b>Date and Reason Authority Expired:</b>	<b>Date Agency sent Request to Remove Release Security:</b>	<b>Days Request was Delinquent*:</b>
Rotan, Jason	Terminated 4/7/2004	USAS was 4/13/2004	6
		USPS was 4/13/2004	6
Benjamin, Daniel	Revoked 3/26/2004	USAS was 4/2/2004	7
		USPS was 4/2/2004	7

\* Agencies must send a request not later than the date the person's authority expires



A state agency may request the comptroller of public accounts (the "comptroller") to pay a claim against the agency only by submitting the appropriate payment voucher to the comptroller's claims division. TEX. GOV'T CODE ANN. §§ 404.046, 404.069 (Vernon Supp. 2004-05), §§ 2103.003-2103.0035 (Vernon 2000), § 2103.004 (Vernon Supp. 2004-05). State law prohibits the comptroller from paying a claim against a state agency unless the comptroller audits the corresponding voucher. TEX. GOV'T CODE ANN. §§ 403.071(a), 403.078 (Vernon 1998), § 2103.004(3) (Vernon Supp. 2004-05).

State law allows the comptroller to audit a payment voucher before or after the comptroller makes a payment in response to that voucher. TEX. GOV'T CODE ANN. § 403.071(g)-(h) (Vernon 1998). In addition, state law authorizes the comptroller to conduct pre-payment or post-payment audits on a sample basis. TEX. GOV'T CODE ANN. § 403.011(a)(13) (Vernon Supp. 2004-05), § 403.079 (Vernon 1998).

The expenditure audit section of the comptroller's claims division conducts these audits.

### **Audit objectives**

The primary objectives of a post-payment audit are as follows. First, ensure that payments are documented so that a proper audit can be conducted. Second, ensure that payment vouchers are processed according to the requirements of the uniform statewide accounting system (USAS) and/or the uniform statewide payroll system (USPS). Third, verify that payments are made in accordance with certain applicable state laws. Fourth, verify that assets are in their intended location and are properly recorded in the State Property Accounting system. Fifth, verify that the voucher signature cards and systems security during the audit period were consistent with applicable laws, rules, and other requirements.

### **Methodology**

The expenditure audit section uses generally recognized sampling techniques to conduct a post-payment audit. The computer audit menu system (CAMS) software is used to generate a stratified random sample of payment vouchers for the audit, with a confidence level of 95 percent. The vouchers are audited in detail, and the results of the audit are projected to estimate the amount of claims that were unsubstantiated or improperly paid.

### **Field Work**

Each auditor in the expenditure audit section is required to approach the field work phase of each audit with an appropriate level of professional skepticism based upon the results of the initial planning procedures. If an auditor suspects during an audit that fraud, defalcations, or intentional misstatement of the facts has occurred, then the auditor will meet with his or her supervisor or the claims division manager, or both, to decide what course of action or additional procedures would be appropriate.

### **Reporting**

Each auditor audits the payment vouchers included in a sample according to established policies and procedures. The audit findings are reported to the audited agency in the form of a report.

The audit report discloses the total dollar amount of any unsubstantiated payments or overpayments noted in the sample. In addition, the report shows the result of projecting those payments to the appropriate population. Finally, the report includes recommendations and requirements for the audited agency.

Each auditor discusses the reportable conditions noted during the audit at the exit and includes details of these conditions to the chief fiscal officer shortly after the exit.