

Audit Report # 508-08-01

Post Payment Audit of the Texas Board of Nursing

**Fiscal Management Division
Expenditure Audit Section**

November 21, 2008



**Susan Combs
Texas Comptroller of Public Accounts**

Auditor: Bill Hornstein

S U S A N

C O M B S

TEXAS COMPTROLLER *of* PUBLIC ACCOUNTS

P.O. Box 13528 • AUSTIN, TX 78711-3528



November 21, 2008

Katherine Thomas
Executive Director
Texas Board of Nursing
333 Guadalupe Street, Suite 3-460
Austin, Texas 78701

Dear Ms. Thomas:

We have completed a post-payment audit of certain payroll, purchase, and travel transactions of the Texas Board of Nursing (Board). A draft of this audit report was sent to the Director of Operations, Mark Majek, on October 28, 2008. Responses to the draft are included within this final report.

We would like to extend special thanks to Mark Majek and Karen Harrell. We appreciate their responsiveness and cooperation in assisting us with this audit.

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

The Board must submit to the Texas Comptroller of Public Accounts (Comptroller's office) a corrective action plan that addresses the instances of payment and documentation errors detailed within this report. The plan must provide for appropriate improvements in the control structure related to the Board's payment process and show expected dates of implementation. The corrective action plan must be completed and signed by management and the Board's internal auditor. An electronic copy of the corrective action plan is available upon request. Our office must receive the completed plan by December 22, 2008.

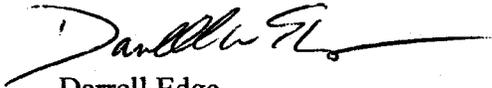
We intend for this report to be used by the Board's management and certain state officials and agencies as listed in Tex. Gov't Code Ann. § 403.071 (Vernon 2008). However, the audit report is a public record, and its distribution is not limited.

We noted other matters involving the processing of expenditures by the Board that we have communicated in an e-mail to Director of Operations, Mark Majek, dated November 22, 2008. Thank you for your cooperation. If we can be of any further assistance, please contact Bill Hornstein by e-mail at <bill.hornstein@cpa.state.tx.us> or call 475-0995.

Katherine Thomas
November 21, 2008
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We would like to request input from you or your designee on the quality of the audit process and the service provided by the audit staff while conducting this audit. Please use the following Web site to provide feedback on the post-payment audit process. <<https://fm.xcpa.state.tx.us/fm/survey/audit/>>. We have also attached a copy of the document for your convenience. We greatly appreciate your feedback.

Sincerely,



Darrell Edge
Manager
Department of Fiscal Integrity

Enclosure

cc: Linda Rounds, Board President, Texas Board of Nursing
Mark Majek, Director of Operations, Texas Board of Nursing
Bill Hornstein, Auditor, Department of Fiscal Integrity, Texas Comptroller of Public
Accounts

EXECUTIVE SUMMARY

We audited a sample of the Texas Board of Nursing (Board) payroll, purchase and travel transactions processed through the uniform statewide accounting system (USAS) and the uniform statewide payroll system (USPS) during the period beginning June 1, 2007 through May 31, 2008. The payment errors identified within our sample have been projected. However, the procurement errors, documentation errors and errors identified outside of our sample are the actual error amounts identified during the audit.

We believe that the recommendations listed in the Detailed Findings of this report should be implemented. It is the responsibility of the Board to seek refunds for all overpayments, unless the Board 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 2008) to ensure that the Board's documents comply in the future. The Board must ensure that the findings discussed in this report are resolved.

Overall Conclusion

Our audit of the Board revealed the following:

- Incorrect salary payments totaling \$48.41 were identified.
- One employee file was missing the personnel action form and one file was missing the prior state service verification form.
- One underpayment of longevity pay was identified (\$180 outside the sample).
- One payment of freight totaling \$38.00 was not listed on the purchase order.
- One purchase did not use the term contract where applicable.
- Two purchase orders were created without obtaining bids from at least three vendors.
- Documents paid late where no interest was paid to the vendor resulted in interest not paid of \$11.49.
- The Board has designated five employees with multiple security capabilities to process payments without oversight.

The law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

The appendices to this report illustrate how we calculated the error percentages and provide schedules of the errors found.

Follow-up to Prior Audit:

We concluded a prior post-payment audit of the Board's payroll, purchase, and travel transactions on July 16, 2004. The current audit shows a similar performance as noted in the previous audit. Only two findings, incorrect salary payments and control weakness over expenditure processing, were noted in both the prior audit and this one.

EXECUTIVE SUMMARY

Expanded Summary of Findings:

PAYROLL We reviewed payroll transactions for compliance with the General Appropriations Act (GAA), the *State of Texas Payroll Policies and Procedures Guide (Payroll Guide)*, and other pertinent statutes. We identified two salary overpayments and one salary underpayment. One employee file was missing the personnel action form and one file was missing the prior state service verification form. One underpayment of longevity was also noted.

PURCHASE We reviewed purchase transactions for compliance with the GAA, the *State of Texas Purchase Policies and Procedures Guide (Purchase Guide)*, the *State of Texas Procurement Manual (Procurement Manual)* and pertinent statutes. During the audit, we observed one transaction where the Board paid freight that was not listed on the PO. We also noticed seven purchases that did not include documentation of the Board obtaining additional bids and one purchase that did not use the term contract.

TRAVEL We reviewed travel transactions that were processed through USAS for compliance with the GAA, the *State of Texas Travel Allowance Guide (Travel Guide)* and pertinent statutes. We did not identify any errors in the payments reviewed.

The updated travel guidelines, *Textravel*, are to be used for travel on or after September 11, 2008. The *Textravel* guidelines are located on the FMX Web site: <https://fmx.cpa.state.tx.us/fm/>.

PROMPT PAY/SCHEDULING We reviewed the Board's compliance with the prompt payment and scheduling laws. We identified six purchase transactions that were paid after the prompt payment deadline and no late payment interest was paid. During the audit period, the Board did not pay any late payment interest to vendors.

SECURITY In addition to our review of expenditure transactions, we conducted a security review that entailed identifying any of the Board's employees with security to USAS or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked. The Board had no terminations or revocations to assess during the audit period; therefore, we do not offer an opinion on the reliability of the Board's security procedures.

We also reviewed the Board's internal control structure. Our review was limited to obtaining an understanding of the Board's controls sufficient to plan our audit and did not include tests of control policies and procedures. The Board has designated five employees with multiple security capabilities that allow them to process payments without oversight.

STATE PROPERTY ACCOUNTING (SPA) SYSTEM REVIEW We selected ten assets to verify that they have been properly tagged and recorded in the State Property Accounting (SPA) system as part of the audit. Five of the assets we selected did not have an inventory tag. These were kept in a locked storage room and had not been assigned to employees. Three other assets were in the process of being transferred to the Podiatry Board, and were located in that agency's office, while still being recorded in SPA as belonging to the Board.

EXECUTIVE SUMMARY

OTHER AUDITOR OBSERVATIONS The Board was cooperative and responsive throughout the audit process and was open to recommendations and suggestions.

We conducted a limited review of the Board's transactions relating to payments for refunds and investigation expenses. We did not identify any errors in the payments reviewed.

We generated a report, as of the audit period, that identified possible duplicate payments or duplicate reimbursements from the treasury. We did not note any duplicate payments.

AGENCY RESPONSE

The Texas Board of Nursing (507) has received and reviewed the completed post-payment audit. We agree with all findings, recommendations and requirement. The accounting staff would like to thank the auditor's for their professionalism, patience and constructive feedback.

Contact
Bill Hornstein
(512) 475-0995

Contributing Auditors
Chris Escalante
Jennifer Stading

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Missing/Insufficient Documentation

Finding

One personnel file was missing the prior state service verification and another was missing the new hire personnel action form. As a result of the audit, the Board has obtained the prior state service information. The Board has procedures in place to properly document the new hire information and to obtain prior state service verification for its employees, but these procedures were not followed in these instances.

Agencies are required to maintain specific documentation to support the legality, propriety, and fiscal responsibility of each payment made out of the agency's funds. The Comptroller may require the documentation to be made available during a post-payment audit, a pre-payment audit, or at any other time. See the *Payroll Policies and Procedures Guide (Payroll Guide)* (pp 1.37, 4.10, 4.13, 4.24, and 4.44).

The Board received the payroll schedules during the audit and they are not included with this report due to confidentiality issues.

Recommendation/Requirement

The Board must ensure that all prior state service verification forms are obtained for its employees. We recommend that the Board ensure its new hire personnel actions are properly documented in the files.

Incorrect Payments

Finding

We identified four instances of incorrect payroll payments.

One of these four instances was due to leave without pay hours that were docked from the wrong month and docking an incorrect amount of leave without pay hours, resulting in an underpayment of salary pay. At the time, the Board was not aware that docked hours needed to be deducted from the same month that leave without pay occurred.

Two of the four incorrect payroll payments were salary overpayments. According to the Board, the overpayments occurred due to an error in calculations and an error in data entry.

The fourth instance was due to an employee who noted prior state service from a University on the job application form that had not been credited, resulting in an underpayment of longevity pay. The sample transaction for this employee was not an error, so the underpayment amount was cumulative for the time frame worked at the Board and was not projected.

The Board received the payroll schedules during the audit and they are not included with this report due to confidentiality issues.

Recommendation/Requirement

The Board must ensure that employees are properly paid for the time worked and that any docked hours are deducted from the applicable pay period. Procedures must be in place to verify any docked time for employees and that all calculations are correct prior to payment. The Board must also review job applications and/or resumes for additional qualifying state service for its employees.

The Board must compensate the employees for the underpayments and consider recovering the overpayments in accordance with Chapter 666 of the Government Code.

DETAILED FINDINGS - PURCHASE

Freight Not on Purchase Order

Finding

We identified one transaction where the Board paid for a freight charge even though it was not included on the original purchase order (PO). The Board explained that this occurred due to an oversight.

A PO is a contract entered into by the state and a vendor. The Board may pay only the contracted amount as shown on the PO. If freight charges are not included on the PO, then the charges are not owed by the Board and should not be paid.

Recommendation/Requirement

The Board should document freight terms on each PO. In instances where the final amount of freight cannot be determined, the Board may use estimated amounts. The Board should document the limit that may not be exceeded for any freight amount. If it is determined that the upper limit for a freight amount will be exceeded, then the vendor should obtain approval for the higher amount. Any approvals for higher amounts should be documented.

DETAILED FINDINGS - PURCHASE

Missing Documentation of Additional Bids

Finding

We identified four expenditures in the sample in which the Board did not obtain the minimum number of required bids for the procurement process. The purchase orders for these purchases were all greater than \$5,000, and therefore required bids from several vendors be obtained. See 34 Tex. Admin. Code sec. 5.51(e)(2)-(3) (2008).

34 Tex. Admin. Code sec. 20.41(e)(1)(A) (2008) states:

Agencies must attempt to obtain at least three informal bids, including a minimum of two bids from historically underutilized businesses (HUBS), on all commodity purchases in excess of \$5,000 and not over \$25,000. Agencies must meet competitive bidding requirements and may supplement the list of bidders obtained from the CMBL with potential bidders contained in the HUBs Directory, which is maintained and accessible electronically on the Comptroller's website.

The Board stated that it did not obtain bids because it was satisfied with the performance the vendor had provided on past orders.

Without obtaining bids from several vendors, the Board cannot be sure that it has achieved the best value to the state for these purchases.

Recommendation/Requirement

The Board must adhere to 34 Tex. Admin. Code sec. 20.41(e)(1)(A) (2008) in order to ensure that the state receives the best value for all purchases.

DETAILED FINDINGS - PURCHASE

Term Contract Not Used

Finding

In one instance, the Board did not use the state term contract when making a purchase of consumables. The specific item purchased was available on the term contracts; therefore, the term contract must be used.

Tex. Gov't Code § 2155.132 (f)(1) states:

(f) Goods purchased under this section may not include:

- (1) an item for which a contract has been awarded under the contract purchase procedure, unless the quantity purchased is less than the minimum quantity specified in the contract;

Section 2.7 of the *Procurement Manual* states "Agencies are required to use the term contracts unless they fail to meet their needs. In such a case, the justification should be documented on the Agency's purchase order and in the procurement file."

The Board did not include a justification for not using the term contract.

Recommendation/Requirement

We recommend that the Board review the term contracts to determine if an item exists on the term contracts before ordering the item.

Interest Not Paid

Finding

According to the prompt payment law, Tex. Gov't Code Ann. § 2251.021 (a) (Vernon 2008), a state governmental entity's payment is overdue on the 31st day after the later of:

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

The Comptroller's office computes and automatically pays any interest due under the prompt payment law when the Comptroller's office is responsible for paying the principal amount on behalf of the agency. Tex. Gov't Code Ann. § 2251.026 (Vernon 2008).

The Board did not pay any automatic interest during the audit period. We identified six purchase transactions that were paid after the prompt payment deadline and no late payment interest was paid. The Board stated that several of these were held due to disputes with the vendors on separate invoices. The Board was under the impression that all payments to a vendor must be held if one payment to that vendor is in dispute.

Recommendation/Requirement

The Board must ensure that it withholds only those invoices that are in dispute with the vendor. This will ensure that undisputed payments can be processed in the appropriate time as described in the Comptroller's *Prompt Payment and Scheduling Guide*.

DETAILED FINDINGS – EXPENDITURE APPROVAL

Control Weakness Over Expenditure Processing

Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations the Board placed on its accounting staff members' abilities to process expenditures. We reviewed the Board's security in USAS, USPS, the Texas Identification Number system (TINS), and the voucher signature cards that were in effect on June 30, 2008. We did not review or test any internal or compensating controls that the Board may have relating to USAS, USPS, or TINS security or internal transaction approvals.

The Board has five employees with security in USAS to enter, change, and electronically approve payments without oversight. Three of these employees can adjust payment transactions in TINS and approve vouchers. Three of these employees can process and release payrolls without oversight. Finally, two of these employees can approve vouchers and pick up warrants from the Comptroller's Office. Regardless of any internal procedures or compensating controls the Board may have, issuing employees security to enter or change and release payment documents without oversight brings a greater risk to the Board's funds.

We ran a report to see whether any of the Board's payment documents processed through USAS and USPS during the audit because of the action of only one person. There was one document that was entered or changed and approved by the same person without another person's electronic oversight. The Board received the details of the document processed without oversight and we have confirmed that the payment is valid.

Recommendation/Requirement

The Board should review the controls over expenditure processing and segregate each task to the extent possible to ensure that no individual is able to process payments without oversight. See Fiscal Policies and Procedures (FPP) B.005 that explains how agencies can reduce risks to state funds by using the new accounting and payment controls in USAS. If the Board determines that it is willing to accept the risk associated with maintaining current security levels, it must implement detective controls to ensure that any inappropriate activity is discovered.

APPENDICES

Summary of Sample Errors Detected

Audit Period: June 1, 2007 to May 31, 2008

GROUP 1 PAYROLL TRANSACTIONS (USPS)

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base (D)	Projected Errors (E)
B	\$0.00	\$999,999,999.99	175	\$48.41	\$342,377.22	.000141	\$3,543,387.51	\$501.01
						(F)	(G)	(H)
					\$342,377.22	.000141	\$3,543,387.51	\$501.01

GROUP 2 TRAVEL TRANSACTIONS (USPS)

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	\$999,999,999.99	17	\$0.00	\$535.00	.000000	\$535.00	\$0.00
						(F)	(G)	(H)
					\$535.00	.000000	\$535.00	\$0.00

GROUP 1 PURCHASE TRANSACTIONS (USAS)

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	\$10,000.00	100	\$38.00	\$66,769.19	.000569	\$573,327.26	\$326.29
B	\$10,000.01	\$999,999,999.99	42	\$0.00	\$1,652,686.37	.000000	\$1,652,686.37	\$0.00
						(F)	(G)	(H)
					\$1,719,455.56	.000147	\$2,226,013.63	\$326.29

GROUP 2 TRAVEL TRANSACTIONS (USAS)

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	\$500.00	150	\$0.00	\$15,549.84	.000000	\$57,123.10	\$0.00
B	\$500.01	\$999,999,999.99	9	\$0.00	\$5,413.66	.000000	\$5,413.66	\$0.00
						(F)	(G)	(H)
					\$20,963.50	.000000	\$62,536.76	\$0.00

GROUP 3 REFUND TRANSACTIONS (USAS)

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Population Base (D)	
A	\$0.00	\$999,999,999.99	20	\$0.00	\$9,621.00	
						(G)
						\$9,621.00

GROUP 4 INVESTIGATION EXPENSE TRANSACTIONS (USAS)

Stratum Letter	Low Range	High Range	Audited Transactions	Errors Detected (A)	Population Base (D)	
A	\$0.00	\$999,999,999.99	20	\$0.00	\$1,328,959.94	
						(G)
						\$1,328,959.94

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 (J) = 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 (J)
\$7,171,053.84	\$827.31

Amount to Report

SCHEDULE OF ERRORS
Group 1 - Purchase

Stratum	Doc #	Sfx	Type of Error	Vendor Name	Amount of Error
A	T0700105	001	Freight Not on Purchase Order	TEXAS	\$38.00
Total Amount in Error					\$38.00

SCHEDULE OF ERRORS

Group 1 - Procurement

Stratum	Doc #	Sfx	PCC	Type of Error	Vendor Name	Amount of Error
A	20700617	001	E	Term Contract Not Used	WORTHINGTON PAPER	\$608.74
B	20700732	002	F	Missing Documentation of Additional Bids	NOLANS OFFICE	\$12,159.25
A	20700797	001	F	Missing Documentation of Additional Bids	NOLANS OFFICE	\$761.12
A	20800321	001	D	Missing Documentation of Additional Bids	V QUEST OFFICE	\$983.71
A	20800525	001	D	Missing Documentation of Additional Bids	V QUEST OFFICE	\$301.30
Total Amount in Error						\$14,814.12

SCHEDULE OF ERRORS

Interest Not Paid

Stratum	Doc #	Suffix	Vendor Name	Prompt Pay Date	Distribution Date	Days Late	Transaction Amount	Interest Not Paid
A	20700826	001	UPS EXPEDITED	20070703	20070904	33	\$8.32	\$0.07
A	20700827	001	UPS EXPEDITED	20070710	20070904	26	\$26.50	\$0.17
A	20700829	001	UPS EXPEDITED	20070723	20070904	13	\$26.85	\$0.09
A	20700896	001	OCE USA INC	20070831	20071217	78	\$148.82	\$2.94
A	20700897	001	OCE USA INC	20070731	20071217	109	\$132.31	\$3.65
A	90800329	001	MATTHEW	20080107	20080212	6	\$3,000.00	\$4.56
Total Interest Not Paid								\$11.49

* 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.

A state agency may request the Comptroller of Public Accounts (Comptroller's office) to pay a claim against the agency only by submitting the appropriate payment voucher to the Comptroller's office. TEX. GOV'T CODE ANN. §§ 404.046, 404.069 (Vernon 2008), §§ 2103.003-2103.0035 (Vernon 2008), § 2103.004 (Vernon 2008). State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher. TEX. GOV'T CODE ANN. §§ 403.071(a), 403.078 (Vernon 2008), § 2103.004(a)(3) (Vernon 2008).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher. TEX. GOV'T CODE ANN. § 403.071(g)-(h) (Vernon 2008). In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis. TEX. GOV'T CODE ANN. § 403.011(a)(13) (Vernon 2008), § 403.079 (Vernon 2008).

The expenditure audit section of the Comptroller's office Department of Fiscal Integrity 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 and/or the uniform statewide payroll/personnel system. 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 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 Department of Fiscal Integrity 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 where applicable. Finally, the report includes recommendations and requirements for the audited agency.

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