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An Audit Report on the Comptroller of Public Accounts' Post-Payment Review of Vouchers

December 1996

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Key Points of Report

An Audit Report on the Comptroller of Public Accounts' Post-Payment Review of Vouchers

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Overall Conclusion

The Comptroller of Public Accounts' current, revised system for the post-payment audit of vouchers is too new for us to fully evaluate its effectiveness. The processes we were able to review were effective overall, but could be enhanced. We reviewed the processes for selecting agencies and vouchers to audit, audit methodology, and procedures for addressing problems discovered as a result of the post-payment audits. At the time of our fieldwork, several of the post-payment audits conducted under the current system were under review and the reports for these audits had not been issued. Therefore, we could not review adherence to prescribed audit methodology and the process for reporting audit results.

Key Facts and Findings

- The Comptroller's Office should enhance its procedures for addressing problems discovered in post-payment audits. Guidelines and procedures for imposing the more severe sanctions on agencies for invalid payments should be made more comprehensive. Also, the Comptroller's Office should develop a process for the timely follow-up of overpayments and noncompliance found in post-payment audits.
- Documentation of the risk assessment used to choose agencies to audit is incomplete. The overall risk assessed for each agency is calculated from numerical ratings assigned for five risk factors. The Comptroller has not documented the thought process used to rate agencies on the three risk factors that require judgement and analysis to assess risk.

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This financial and compliance audit was conducted in accordance with Government Code, §§ 321.0131 and .0132.

Issues and Recommendations

Overall Conclusion

The Comptroller of Public Accounts' current, revised system for the post-payment audit of vouchers is too new for us to fully evaluate its effectiveness. The processes we were able to review were effective overall, but could be enhanced. We reviewed the processes for selecting agencies and vouchers to audit, audit methodology, and procedures for addressing problems discovered as a result of post-payment audits. At the time of our fieldwork, several of the post-payment audits conducted under the current system were under review and the reports for these audits had not been

issued. Therefore, we could not review adherence to prescribed audit methodology and the process for reporting audit results.

The Comptroller started the first of the post-payment audits in June 1994 and has made significant improvements to the function since that time. A 1995 internal audit first identified the need to improve operations. With the assistance of an outside consultant, the Comptroller's Office significantly reorganized and changed operations. The improved procedures were implemented in

December 1995 and were further refined as a result of a May 1996 external quality review. See Appendix 2 for an overview of the post-payment voucher review process.

Section 1:

The Comptroller Should Enhance Procedures for Addressing Problems Discovered as a Result of Post-Payment Audits

The Comptroller has the legal authority to impose a variety of sanctions on agencies who have made improper payments (see Figure 1). The Comptroller's *Expenditure Audit Handbook*, published in January 1996, indicates that the first three sanctions will automatically be imposed.

The more severe sanctions of reducing legislative appropriations or reverting an agency to pre-payment status have never been imposed as a result of a post-payment audit. However, one agency had been placed on pre-payment audit status as a result of being placed into conservatorship. Other than this, Comptroller personnel have indicated that they have not yet encountered a situation in which the imposition of these more severe sanctions would be considered.

Section 1-A:

The Comptroller Should Develop More Comprehensive Guidelines and Procedures for Imposing the More Severe Sanctions for Improper Payments

The Comptroller has not developed comprehensive criteria and procedures for imposing the more severe sanctions of reducing appropriations or returning an agency to pre-payment audit status. The lack of sufficiently detailed criteria can lead to inconsistent or inappropriate imposition of these sanctions. Additionally, without

Figure 1

Government Code Section 403.071(h) gives the Comptroller authority to impose the following sanctions on agencies with overpayments:

- (1) Implement procedures to ensure that similar invalid claims from the state agency are not paid in the future;
- (2) Report to the governor, the lieutenant governor, the speaker of the house of representatives, the state auditor, and the Legislative Budget Board the results of the audit;
- (3) Require the state agency to obtain a refund of the monies from the payee;
- (4) Cancel the contract* with the state agency; and
- (5) Reduce the state agency's remaining appropriations by the amount of the claim

* The Comptroller has entered into a contract with each agency to perform post-payment audits. The last agencies to enter into contracts were two small agencies whose contracts were executed in July and August 1996.

improved procedures were implemented in

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specific imposition criteria and procedures, the effectiveness of these sanctions as a deterrent could be diminished due to agencies' lack of guidance in this area.

The absence of specific procedures increases the risk that significant problems at agencies would not be addressed on a timely basis. Also, without more comprehensive guidelines, agencies may not be afforded due process in resolving disagreements over the imposition of sanctions.

Establishing more detailed criteria and procedures will decrease the potential for uncertainty over how to address any significant problems discovered in post-payment audits.

Recommendation:

We recommend that the Comptroller develop more comprehensive criteria and procedures for imposing the more severe sanctions of reducing appropriations or returning an agency to pre-payment status. The criteria for imposing sanctions should include:

- Magnitude of the problem(s) at the agency
- Financial impact
- Ability and willingness of the agency to resolve the problem and keep it from recurring

Criteria and procedures developed should be sensitive to the subjective factors involved in applying these sanctions. They should provide some flexibility given the judgmental process that must be applied in making these decisions.

In order to provide agencies with an avenue for resolving disagreements over the imposition of a sanction, the Comptroller

should develop an appeals process. Because of the specialized knowledge necessary to resolve such disagreements, this process should be internal to the Claims Division. In order to protect against protracted disputes with agencies, time limits should be established for each step in the process.

The Comptroller should also develop a contingency plan for the imposition of the sanction of returning an agency to pre-payment audit status. Plans should be made as to how to acquire and train additional personnel to handle the extra workload. Although this sanction is likely to be only rarely used, it would be beneficial to plan for this situation before it happens.

The Comptroller should notify agencies of the criteria and procedures for imposing the more severe sanctions in advance. This will give the Comptroller the opportunity to solicit feedback from agencies. Also, this communication will ensure that agencies have a clear understanding of the criteria and procedures.

Management's Response:

The focus of the post-payment audit program has been to encourage agencies' compliance with the state's laws and rules regarding expenditures. In our effort to improve agencies' compliance, we provide training, conduct post-payment audits, and require agencies to submit corrective action plans that address areas of weakness.

We agree to develop more detailed procedures for implementing the more severe sanctions. Currently, we do not have enough history for comparison of the severity of audit findings. Thus, we do not have a baseline from which to judge the severity of problems discovered in a post-payment audit. Once we have sufficient history under the post-payment audit

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program, we will review, with Comptroller management, detailed criteria and procedures for imposing the more severe sanctions of reducing appropriations or returning an agency to pre-payment status. Once detailed procedures for the imposition of the more severe sanctions are drafted and approved, we will notify agencies through green border Notices to State Agencies and the Statewide publication.

We have an existing process that provides agencies with an avenue for resolving disagreements over audit results. This process is built into our post-payment audit program. Once detailed criteria and procedures for implementing the more severe sanctions have been established, we will implement an appeals process for agencies that disagree with the imposed sanctions. This appeals process will establish time limits for each step in the process.

We will review, with Comptroller management, a contingency plan for the imposition of the sanction of returning an agency to pre-payment audit status. This plan will consider methods for training and acquiring personnel to handle the workload.

Section 1-B:

Develop a Process for the Timely Follow-Up of Overpayments and Noncompliance Found in Post-Payment Audits

The Comptroller has not developed a systematic process for verifying that agencies have obtained refunds of improper payments from vendors or taken action to prevent recurrences of problems. The Comptroller has not yet followed up on the 34 agencies audited under the pilot program in 1994 and 1995 to determine if the agencies have resolved problems identified in those audits. This impedes the enforcement of state laws related to the expenditure of funds.

The Comptroller, through the audits in the pilot program, identified transactions that were insufficiently supported and that violated state laws. Other problems identified included late payments, incorrect coding, and missing dates on documents. The Comptroller has allocated time in the fiscal year 1997 audit plan for the follow-up of the audits under the pilot program. Also, the Comptroller has started to require that agencies submit corrective action plans for resolving problems found in post-payment audits.

The timely follow-up of audit results would inform the Comptroller as to whether agencies implemented the agreed upon corrective actions. The Comptroller can then use this information to take further action, if necessary, to enforce state laws. Timeliness is especially important for improper payments, since delays in pursuing refunds from vendors increase the difficulty of receiving payment.

Recommendation:

We recommend that the Comptroller develop procedures for a more timely follow-up of audit results. Agencies should be required to obtain refunds of overpayments within a specific period of time. Also, the Comptroller should review agencies' corrective action plans for reasonableness of time lines. These time lines should be considered when scheduling follow-ups to determine that agencies have taken corrective action within the agreed-upon time frames.

Management's Response:

Agreed and implemented.

Within the 1997 audit plan, we budgeted 1,920 hours for follow-up reviews of pilot-program and FY96 post-payment audits. Follow-up reviews of the audits conducted in

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the FY97 audit plan will be budgeted in and performed during the FY98 audit plan.

The Comptroller's office requires an agency to submit a corrective action plan within 30 days after the issuance of the final audit report. Once received, the action plan is reviewed for reasonableness of time lines. This includes the time frames given by an agency to receive refund of overpayments. Standardized time frames for obtaining refunds would be impractical due to the unique nature of each situation. Follow-ups will be scheduled based on the time frames given by the agencies.

Section 2:

The Comptroller's Office Should Improve the Documentation of Its Risk Assessment

The Comptroller has not fully documented its justification for the risk level assessed for individual agencies. The Comptroller has implemented an effective risk assessment methodology to help determine agencies to audit. A file is maintained for each agency with audit reports, newspaper articles, and other pertinent information. However, the Comptroller does not have a written analysis of how this data was used to assign a risk level for three of the five risk factors. These three risk factors require the use of judgement and analysis to assign a rating.

The Comptroller's risk assessment uses five risk assessment factors to arrive at an overall risk assessment for each agency. Agencies are rated as minimal, low, moderate, and high for each risk factor. These ratings are assigned numerical values (0 = minimal through 3 = high) and are multiplied by a multiplier to arrive at a weighted score for each risk factor. The weighted scores are then added to obtain the overall risk assessment.

The five risk factors used in the fiscal year 1996 risk assessment are as described below:

- Dollar amount of expenditures
- Number of transactions
- Risk to the State¹
- Agency history (of compliance with the State's purchase and travel rules)¹
- History of corrections to USAS (Uniform Statewide Accounting System) data¹

The lack of a documented ratings justification leaves the Comptroller without a complete record of how the information was analyzed to arrive at a rating. This has resulted in the loss of historical data which could have been used in subsequent risk assessments. Also, this situation increases the risk of inconsistencies in the assessment process.

Recommendation:

We recommend that the Comptroller document the justification for the risk ratings assigned to each agency for the three risk factors requiring judgement and analysis. This can be accomplished by preparing memorandums and placing them in the files. Also, checklists can be used in cases where the thought process for an agency's risk is very straightforward.

Management's Response:

Agreed and Implemented. Based on recommendations from internal audit and through discussions with the State Auditor's

¹ These risk factors require judgement and analysis to assign the rating.

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Office, we revised the criteria used to evaluate the risk of all state agencies. The new objective criteria lends itself to a more consistent, impartial method for selecting agencies for audit. We completed the

revisions to the risk assessment procedures in August 1996 and implemented them for our annual risk assessment for the FY97 audit plan.

Appendices

Appendix 1:

Objective, Scope, and Methodology

Objective

The audit objective was to determine if there are adequate controls over cash disbursements at the Comptroller's Office to prevent and/or detect errors or irregularities in paid vouchers in a timely manner.

Scope

The scope of our audit included a review of controls over the post-payment voucher review process. Areas covered include:

- Human Resources
- Risk Assessment Process
- Voucher Review Methodology
- Management Oversight

We did not review the function's adherence to prescribed audit methodology and the process for reporting audit results. At the time of our fieldwork, several of the post-payment audits conducted under the current system were under review and the reports for these audits had not been issued.

Methodology

We reviewed agency records, the *Expenditure Audit Handbook*, internal audit reports, and a consultant's report. We also interviewed management and staff of the Comptroller's Office.

Other Information

Fieldwork was conducted from June to August 1996.

The audit was conducted in accordance with generally accepted governmental auditing standards.

The audit work was performed by the following members of the State Auditor's staff:

- Henrietta Cameron-Mann, CPA (Project Manager)
- Godfrey Baldwin
- Whitney Hutson-Kutz, CPA
- Frank N. Vito, CPA (Audit Manager)
- Craig D. Kinton, CPA (Director)

Appendices

Appendix 2:

Background Information

History

The post-payment audits replaced the pre-payment audit process that had been in place for several years. Historically, all vouchers were reviewed by the Comptroller's Office before payment. The first post-payment audits were started in June 1994, and now most vouchers are paid without the Comptroller's prior review. Starting in September 1993, the Comptroller converted agencies and types of payments from pre-payment to post-payment audit status in stages.

The Comptroller's Office made significant changes to the post-payment review function after an internal audit identified the need to improve operations. Using recommendations from internal audit, as well as an August 1995 consultant's review, the Comptroller's Office made organizational changes, provided staff with extensive training, improved the audit methodology, and implemented a risk assessment process. The improved procedures were implemented in December 1995 and were further refined as a result of a May 1996 external quality review.

Below is some information, furnished by the Comptroller, that shows the amount of resources devoted to post-payment audits in fiscal year 1996:

Number of Full Time Equivalent Employees Devoted to Expenditure Audit	12.9 ²
Projected Expenditures	\$ 478,399 ³

²Includes eight auditors who perform the post-payment audits.

³Projected by the State Auditor's Office from data provided by the Comptroller's Office.

Overview of the Post-Payment Audit Process

The Expenditure Audit Section within the Claims Division of the Comptroller's Office performs the post-payment audits of vouchers. These audits include an examination of a sample of paid purchase vouchers for compliance with state laws, adequate supporting documentation, and accurate account classification under the Uniform Statewide Accounting System (USAS). According to the *Expenditure Audit Handbook*, the mission of the Expenditure Audit Section is as follows:

Our mission is to enforce and improve state agencies' compliance with state travel and purchasing laws and regulations by performing effective and efficient expenditure audits and by providing challenging assignments to the section members.

The scope of post-payment audits includes all travel and most purchase vouchers. It does not include payroll vouchers. All state agencies and universities are subject to the post-payment audit process. The Comptroller selects agencies to be audited based on a risk assessment.

The Comptroller reports the audit results for each agency in the form of an audit report and a management letter. The audit report is used to communicate the more significant problems found at the agency, such as overpayments and related findings, recommendations, and agency management's responses. The management letter is used to communicate less significant problems, such as improper appropriation, incorrect USAS account codes, and payments past the prompt payment deadline. The Comptroller requires agencies to submit a corrective action plan if problems have been identified on an audit.

Appendices

On a quarterly basis, the Comptroller prepares a summary of the information presented in the audit reports and distributes it to the following parties:

- Governor's Office
- Senate Finance Committee
- House Appropriations Committee
- Legislative Budget Board
- Sunset Advisory Committee
- State Auditor's Office
- Agencies whose audit results are included in the report

The Expenditure Audit Section communicates extensively with the Expenditure Research

and Assistance Section, also within the Claims Division. The Research Section interprets state regulations and answers inquiries from agencies regarding the expenditure of state funds. This communication is very beneficial because it promotes accuracy and consistency of the application of state regulations on audits and informal communications with agencies.

The Comptroller's Office incorporates education on recurring issues raised by post-payment audits into the training it provides to agencies. This should help increase agencies' compliance with state law.

Appendices

Appendix 3:

Comparison to Other States

Texas is one of a handful of states that conduct centralized review of vouchers on a post-payment basis. According to a 1994 survey conducted by the Comptroller's Office, 9 of the 29 states who responded indicated that they conducted some post-payment audits. The post-payment review process in most of these states was more limited than what is done in Texas.

We obtained additional and updated information on five of the nine states who indicated that they had a post-payment review function. To show how Texas compares to these other states, this information is summarized below. When reviewing this data, it is important to remember that individual states are organized very differently from one another.

	Texas	Arizona	Connecticut	New York	Oklahoma	Virginia
Scope of Post-Payment Audits	All travel and most purchase expenditures for all agencies. Payroll is audited on a pre-payment basis.	Most expenditures.	All expenditures	"Quick-Pay" expenditures - Purchase Documents less than \$1,000 and travel documents less than \$250.	Some higher education institutions comprising 18 percent of transactions. Also, non-travel payments below \$750 for all state government entities.	Expenditures at 168 of the 257 state agencies (65 percent). Agencies must meet management standards before they can be moved from pre-payment to post-payment audit status.
Annual Audit Coverage	Approximately 40 agencies planned. 29 audits were performed from December 1995 through August 1996.	25 agencies and 10 to 15 follow-up reviews.	All agencies are audited every month.	All agencies with Quick-Pay expenditures at least once annually.	All agencies subject to post-payment audits at least once annually.	All agencies subject to post-payment audits at least once annually.
Risk Assessment Methodology	Overall risk assessment based on number and dollar amount of transactions, history, and inherent risk.	Risk is assessed based on an analysis of agencies' internal control structures. Also, dollar amounts and fund types are considered.	Extent and type of payments audited are based on a review of the prior month's audit results.	None	None	Travel and petty cash reimbursements are considered to be higher risk.
Penalties or Sanctions for Non-Compliance With Regulations	Five sanctions available under law. (See page 1 of this report.)	Individual can be held liable for purchase amount plus 25 percent fine.	Citation in monthly and quarterly reviews, review by field audit team, or return to pre-payment audit status	Quick-Pay authority could be suspended.	Approving officer could be liable for purchase amount, especially if it involves fraud.	More frequent audits or removal from the post-payment audit program.

Appendices

	Texas	Arizona	Connecticut	New York	Oklahoma	Virginia
Annual Statewide Expenditures	\$55.9 billion* excluding payroll	\$6.9 billion	\$8.8 billion	\$394 million for Quick-Pay transactions	\$7.5 billion, excluding payroll	\$13.8 billion
Annual Statewide Number of Transactions	10.6 million*	1.5 million	649,000 checks issued	1.7 million Quick-Pay transactions	1.3 million	2.4 million**
Number of Post-Payment Auditors	8	3 auditors and 2 financial accountants	5-7 full time	2	3	2
Number of Agencies	212	115	130	300 who use Quick Pay	173	257
* Obtained from information used by the Comptroller to calculate its risk assessment.						
** From 1994 survey conducted by the State Comptroller's Office						