

Section 3.2

Post-Payment Audit

The Expenditure Audit section plans audits on an annual basis and performs a risk assessment each year before initiating audit plans. State agencies are audited for compliance with certain state laws and rules concerning payroll, travel, purchase and procurement and with the processing requirements of the uniform statewide accounting system (USAS) and the uniform statewide payroll/personnel system (USPS) or the standardized payroll/personnel reporting system (SPRS). The Expenditure Audit sections shall utilize generally recognized sampling procedures to select a sample of transactions to be tested. The agency will supply the complete purchasing package applicable to each Purchase Category Code (see Post – Procurement Agency Document Checklist). Items determined to be exempt from competitive bidding must include the legal citation exempting the purchase (see Section 4.2 Exemptions). Documents are audited for compliance with purchasing procedures to ensure continued delegation to state agencies. Each PCC is audited for the following list of items:

1. The invoice matches the Purchase Order/Contract;
2. Documentation of receipt of the goods and/or services that matched the invoice and PO/contract.
3. Informal bid taken with minimum 2 bids from HUBs (one from minority owned business and one from a woman-owned business, any ethnicity);
4. The bidder mailing list is taken from the Centralized Master Bidders List (CMBL);
5. Source statements from the Historically Underutilized Businesses (HUB) list;
6. Formal written bids;
7. Bid tabulation (informal or formal);
8. Family Code statements or Bidder Affirmations;
9. Verifying that the vendor identification number (VIN/TIN), name and address is the same on all documentation;
10. Verifying payment VIN/TIN against the awarded contract VIN/TIN;
11. Commodity class and item number are listed on purchase order;
12. The correct PCC is used;
13. The correct legal citation on exempt purchases (consult your legal counsel for more information);
14. Verification of authorized signatures on proprietary justification letters;
15. Signed emergency purchase justification letters;
16. Authorized purchasing signatures;
17. Direct publication declaration statement on the purchase order;
18. Purchase Order Change Notice (POCN) for extending/renewing a contract;
19. Verification that sales tax has not been paid by the agency on purchases;
20. Contracts crossing the biennium contain special funding/excess obligation clauses;
21. The supporting cash register receipt for applicable point of sale purchases using the payment card or other authorized credit card. Payment cards purchases that are not point of sale purchase must meet the same documentation requirements as all other purchases;

22. EPLS (Excluded Parties List System) printout before contract award and contract renewal;
23. Verification of Electronic State Business Daily (ESBD) posting.

For additional information call Expenditure Audit at (512) 475-0995 or fax to (512) 475-5476.

AUDIT PROCEDURES AND GUIDELINES

This section provides procedural guidelines to be followed during the post-payment audit process. The amount of audit planning, the quality of the audit and the work papers, as well as the quality of the report and follow-up activity are important factors. The procedural steps below are general audit steps followed during the post-payment audit process. Differences in agencies must be carefully and judiciously weighed in terms of significance, risks, and the resulting impact upon the agency.

Audit Period

The audit period is the time frame from which the sample transactions will be selected. The audit period for post-payment audits is the most recently completed four fiscal quarters from the date the audit is assigned. For example, an audit that begins on March 1, 2011, should encompass the audit period beginning March 1, 2010 through February 28, 2011.

Initial Assessment

The purpose of the initial assessment is to get enough general information to form a conclusion as to what specific areas of the agency to review. Much of this information can be obtained in advance of the entrance conference. A notice of intent to audit, an agency questionnaire and an audit overview are to be mailed to the agency. After receipt of the questionnaire, the auditor shall schedule the entrance interview and an on-site visit to gain an understanding of the flow of documents through the agency's processing procedures and discuss issues with agency personnel that may affect the nature of the audit.

Sampling

Based on the information obtained during research and planning, the lead auditor will begin preparation for the sampling phase of the audit. The audit team shall utilize generally recognized sampling procedures to select a sample of transactions to test. The audit team shall audit the selected transactions following established policies and procedures. In addition, the auditor shall utilize separate reports generated as part of audit research to verify that payments are valid and processed correctly.

Fieldwork

The primary objective of the fieldwork phase of the engagement is to audit expenditures of the agency for compliance with the rules and regulations governing procurement and its

corresponding expenditure to identify any payment or documentation errors. The secondary objective is to audit for compliance with USAS, USPS, and SPRS processing requirements, coding errors and other errors that do not result in an overpayment of state funds. Exceptions are to be categorized and grouped as to the type of error and potential material effect of the errors on the overall agency.

Audit Findings

Purchasing documentation serves as a link from the purchase to the payment transaction. Proper documentation is essential to meet agency's internal requirements and TPASS's audit requirements. Some of the most common procurement related audit findings include:

- Using incorrect PCC codes
- Not posting, or posting incorrectly, on the Electronic State Business Daily
- Not including bidder affirmations and required clauses as part of an IFB
- Incorrect procedures during informal bidding
- Missing information in bid tabulations
- Not using available contracts (Term, CCG, TCI, TIBH, DIR, TXMAS, etc.) without proper justification
- Missing documentation

Exit Conference

At the conclusion of the fieldwork phase, an exit conference shall be held with the appropriate staff of the entity being audited to discuss findings. A final list of findings should be forwarded to the agency at this time. The auditor should document the results of this meeting in the work papers.

Report Writing

The auditor shall report the audit findings to the audited agency. All findings shall be divided into one of two categories:

1. Those which represent payment or documentation errors which will be included in the formal audit report.
2. All others, such as coding, noncompliance with USAS, etc. which will be included in the informal management letter.

The audit report shall disclose the dollar amount of any payment or documentation errors noted inside or outside the sample. This report shall also include recommendations by the Comptroller.

Corrective Action Plan (CAP)

The final step is a CAP for all the findings from the audit report. The CAP must be completed by the agency and returned within 30 days of the report being issued. The CAP outlines steps that should be taken to prevent the same errors from recurring.

**TEXAS COMPTROLLER OF PUBLIC ACCOUNTS
POST-PAYMENT & PROCUREMENT REVIEW
AGENCY DOCUMENT CHECKLIST**

PLEASE NOTE:

- Supporting documentation must be provided for each PCC code, included the blank PCC used for exempt purchases.
- All purchases exceeding \$25,000 must be posted on the Electronic State Business Daily (ESBD) for the required minimum time period. Failure to post for the required time will void the contract. Verification of the posting is required in the purchase package.

PCC A TERM CONTRACT PURCHASE	<input type="checkbox"/> TxSmartBuy Term Contract PO with authorized signature <input type="checkbox"/> Invoice must match PO <input type="checkbox"/> Check freight charges stated on PO <input type="checkbox"/> Purchase Order Change Notice (POCN) for extending/renewing a contract (created prior to the expiration of contract) (if applicable) <input type="checkbox"/> Vendor Performance Report issued for orders \$25,000 or greater
PCC B SCHEDULED PURCHASE	<input type="checkbox"/> Scheduled Contract award listing issued by TPASS <input type="checkbox"/> Internal Agency Purchase Order with authorized signature <input type="checkbox"/> Invoice must match PO <input type="checkbox"/> Check freight charges stated on PO
PCC C MANAGED TERM CONTRACT PURCHASE	<input type="checkbox"/> Internal Agency Purchase Order with authorized signature issued against TPASS Managed Term Contract <ul style="list-style-type: none"> • Delivery terms and/or contract term defined • NIGP Class-Item Codes listed <input type="checkbox"/> Invoice must match PO <input type="checkbox"/> Purchase Order Change Notice (POCN) for extending/renewing a contract (created prior to the expiration of contract) (if applicable)

<p>PCC D</p> <p>PURCHASES OF INFORMATION TECHNOLOGY COMMODITIES OR SERVICES NOT AVAILABLE THROUGH DIR CONTRACTS</p>	<p><i>If using the new 34 Texas Administrative Code § 20.391 Rule for Request for Proposals procedures:</i></p> <p>_____ PO with authorized signature</p> <ul style="list-style-type: none"> • Delivery terms and/or contract term defined • NIGP Class-Item Codes listed <p>_____ Invoice must match PO</p> <p>_____ All affirmations and applicable clauses included</p> <p>_____ Agencies required to determine whether the IT commodity or service is available from Department of Information Resources contract(s); if not, a</p> <p>_____ DIR exemption must be included in the documentation indicating that the product or service may be otherwise procured; an exemption provided by the department of the Legislative Budget Board; or other exemption such as an express statutory exemption may be accepted.</p> <p>_____ If the purchase does not exceed the \$5,000 spot purchase limit, informal bidding requirements must be indicated in the documentation</p> <p>_____ If greater than \$5,000, but less than ceiling for commodity/service, Bid Tabulation is required</p> <ul style="list-style-type: none"> • CMBL printout verifying that at least three (3) vendors were solicited, two (2) of which must be certified HUBs • CMBL printout must reflect date solicited <p>_____ At the time of award, file documentation must contain:</p> <ul style="list-style-type: none"> • Excluded Parties List System (EPLS) printout date prior to contract award • Awarded vendor's CMBL profile • Awarded vendor's product/service information pertaining to the award
<p>PCC D</p> <p>(continued)</p>	<p>_____ Electronic State Business Daily (ESBD) posting printout if purchase is over \$25,000</p> <p>_____ Emergency justification letter with authorized signature (if applicable)</p> <p>_____ Proprietary letter with authorized signature (if applicable)</p> <p>_____ For purchases over \$100,000, Historically Underutilized Business Subcontracting Plan must be documented</p> <p><i>If using an approved alternate method of procurement per 34 Texas Administrative Code §20.391, code as PCC D, but follow relevant procurement procedures; e.g., the IFB procedure for IT commodities between \$5,000 and \$25,000 would be coded PCC D, but following the PCC F pattern.</i></p>

<p>PCC E</p> <p>PURCHASES LESS THAN \$5,000.01</p>	<p>____ PO with authorized signature</p> <ul style="list-style-type: none"> • Delivery terms and/or contract term defined • NIGP Class-Item Codes listed <p>____ Invoice must match PO</p> <p>____ Waiver form from TCI if purchased from another source</p> <p>____ If the item is on term contract, verify that the amount is within the minimum purchase amount designated or within the spot purchase limit per the contract</p> <p>____ All affirmations and applicable clauses included</p> <p>____ Letter of Justification for purchases of non-recycled commodities/services over \$150 (if applicable)</p> <p>____ EPLS printout, prior to contract award</p>
<p>PCC F</p> <p>COMMODITY PURCHASE FROM \$5,000.01 to \$25,000</p>	<p>____ PO with authorized signature</p> <ul style="list-style-type: none"> • Delivery terms and/or contract term defined • NIGP Class-Item Codes listed <p>____ Invoice must match PO</p> <p>____ All affirmations and applicable clauses included</p> <p>____ Bid Tabulation</p> <ul style="list-style-type: none"> • CMBL printout verifying at least three (3) vendors were solicited, two (2) of which must be certified HUB vendors • CMBL printout must reflect the date solicited • Bid tabulation must list all vendors solicited • Written approval from agency head or designee authorizing supplementation with non-CMBL vendors <p>____ Purchase Order Change Notice (POCN) for extending/renewing a contract (created prior to the expiration of contract) (if applicable)</p> <p>____ Emergency justification letter with authorized signature (if applicable)</p> <p>____ Proprietary letter with authorized signature (if applicable)</p> <p>____ Letter of Justification for purchases of non-recycled commodities/services over \$150 (if applicable)</p> <p>____ EPLS printout, prior to contract award</p>
<p>PCC G</p> <p>OPEN MARKET ONE-TIME PURCHASE (solicited by TPASS)</p>	<p>____ Open Market Contract issued by TPASS for commodities exceeding \$25,000 and services exceeding \$100,000</p> <p>____ Internal Agency Purchase Order with authorized signature</p> <ul style="list-style-type: none"> • Delivery terms and/or contract term defined <p>____ Invoice must match TPASS PO</p> <p>____ Check freight charge on PO (if applicable)</p>

<p>PCC H</p> <p>CREDIT CARD PURCHASE</p>	<p>____ PO with authorized signature and/or Internal Log</p> <ul style="list-style-type: none"> • NIGP Class-Item Codes listed <p>____ List on the PO the item purchased</p> <p>____ All affirmations and applicable clauses included</p> <p>____ All sales receipts or invoices must be included and signed by authorized user</p> <p>____ EPLS printout, prior to contract award</p> <p><i>Note: Procurement card cannot be used for automated nor non-automated contracts.</i></p>
<p>PCC I</p> <p>PURCHASES FROM DIR CONTRACT FOR AGENCIES</p>	<p><i>As of 9-1-2007 this Purchase Category Code includes TXMAS Schedule 70 contracts</i></p> <p>____ PO with authorized signature</p> <ul style="list-style-type: none"> • Delivery terms and/or contract term defined • NIGP Class-Item Codes listed <p>____ State DIR contract number on PO</p> <p>____ Invoice must match PO</p>
<p>PCC K</p> <p>DIRECT PUBLICATION PURCHASE</p>	<p>____ PO with authorized signature</p> <ul style="list-style-type: none"> • Delivery terms and/or contract term defined • NIGP Class-Item Codes listed <p>____ Invoice must match PO</p> <p>____ All affirmations and applicable clauses included</p> <p>____ Electronic State Business Daily (ESBD) posting printout if purchase is over \$25,000</p> <p>____ Signed declaration statement, “Not available from any other source” must be documented on all direct publication orders</p> <p>____ EPLS printout, prior to contract award</p>

<p style="text-align: center;">PCC L</p> <p>PERISHABLE PURCHASE</p>	<p>____ PO with authorized signature</p> <ul style="list-style-type: none"> • Delivery terms and/or contract term defined • NIGP Class-Item Codes listed <p>____ Invoice must match PO</p> <p>____ All affirmations and applicable clauses included</p> <p>____ Bid Tabulation (\$5,000.01 and greater)</p> <ul style="list-style-type: none"> • CMBL printout verifying at least three (3) vendors were solicited, two (2) of which must be certified HUB vendors • CMBL printout must reflect the date solicited • Bid tabulation must list all vendors solicited • Written approval from agency head or designee authorizing supplementation with non-CMBL vendors <p>____ Purchase Order Change Notice (POCN) for extending/renewing a contract (created prior to the expiration of contract) (if applicable)</p> <p>____ Emergency justification letter with authorized signature (if applicable)</p> <p>____ Proprietary justification letter with authorized signature (if applicable)</p> <p>____ Electronic State Business Daily (ESBD) posting printout if purchase is over \$25,000</p> <p>____ EPLS printout, prior to contract award</p>
<p style="text-align: center;">PCC M</p> <p>DISTRIBUTOR PURCHASE</p>	<p>____ PO with authorized signature</p> <ul style="list-style-type: none"> • Delivery terms and/or contract term defined • NIGP Class-Item Codes listed <p>____ Invoice must match PO</p> <p>____ Bid Tabulation (\$5,000.01 and greater)</p> <ul style="list-style-type: none"> • CMBL printout verifying at least three (3) vendors were solicited, two (2) of which must be certified HUB vendors • CMBL printout must reflect the date solicited • Bid tabulation must list all vendors solicited • Written approval from agency head or designee authorizing supplementation with non-CMBL vendors <p>____ All affirmations and applicable clauses included</p> <p>____ Purchase Order Change Notice (POCN) for extending/renewing a contract (created prior to the expiration of contract) (if applicable)</p> <p>____ Emergency justification letter with authorized signature (if applicable)</p> <p>____ Proprietary justification letter with authorized signature (if applicable)</p> <p>____ Electronic State Business Daily (ESBD) posting printout if purchase is over \$25,000</p> <p>____ EPLS printout, prior to contract award</p>

<p>PCC P</p> <p>BULK FUEL PURCHASE</p>	<p>____ PO with authorized signature</p> <ul style="list-style-type: none"> • Delivery terms and/or contract term defined • NIGP Class-Item Codes listed <p>____ Invoice must match PO</p> <p>____ All affirmations and applicable clauses included</p> <p>____ Bid Tabulation (\$5,000.01 and greater)</p> <ul style="list-style-type: none"> • CMBL printout verifying at least three (3) vendors were solicited, two (2) of which must be certified HUB vendors • CMBL printout must reflect the date solicited • Bid tabulation must list all vendors solicited • Written approval from agency head or designee authorizing supplementation with non-CMBL vendors <p>____ All sales receipts or invoices must be included and signed by authorized user</p> <p>____ Emergency justification letter with authorized signature (if applicable)</p> <p>____ Proprietary justification letter with authorized signature (if applicable)</p> <p>____ Electronic State Business Daily (ESBD) posting printout if purchase is over \$25,000</p> <p>____ EPLS printout, prior to contract award</p> <p><i>(Note: Purchases made from a CCG Contract should be coded as a Document Type 9 and reference Texas Government Code § 2162.105.)</i></p>
<p>PCC Q</p> <p>SERVICE PURCHASE FROM \$5,000.01 TO \$25,000</p>	<p>____ PO with authorized signature</p> <ul style="list-style-type: none"> • Delivery terms and/or contract term defined • NIGP Class-Item Codes listed <p>____ Invoice must match PO</p> <p>____ Bid Tabulation</p> <ul style="list-style-type: none"> • CMBL printout verifying at least three (3) vendors were solicited, two (2) of which must be certified HUB vendors • CMBL printout must reflect the date solicited • Bid tabulation must list all vendors solicited • Written approval from agency head or designee authorizing supplementation with non-CMBL vendors <p>____ All affirmations and applicable clauses included</p> <p>____ Internal repair statement must be documented on PO (labor charges and parts must be included)</p> <p>____ TPASS Approval letter to utilize RFP procurement method</p> <p>____ Emergency justification letter with authorized signature (if applicable)</p> <p>____ Proprietary justification letter with authorized signature (if applicable)</p> <p>____ Purchase Order Change Notice (POCN) for extending/renewing a contract (created prior to the expiration of contract) (if applicable)</p> <p>____ EPLS printout, prior to contract award</p>

<p>PCC S</p> <p>SERVICE PURCHASE TO EXCEED \$25,000.01</p> <p>(Total Value of Initial Contract Term)</p>	<p>____ PO with authorized signature</p> <ul style="list-style-type: none"> • Delivery terms and/or contract term defined • NIGP Class-Item Codes listed <p>____ Invoice must match PO</p> <p>____ All affirmations and applicable clauses included</p> <p>____ Signed bid from awarded vendor</p> <p>____ Bid Tabulation</p> <ul style="list-style-type: none"> • CMBL printout of all eligible vendors solicited, two (2) of which must be certified HUB vendors • CMBL printout must reflect the date solicited • Bid tabulation must list all vendors solicited • Written approval from agency head or designee authorizing supplementation with non-CMBL vendors <p>____ Purchases over \$100,000</p> <ul style="list-style-type: none"> ▪ TPASS’s Delegation of Purchase letter (required) ▪ Written statement addressing rationale for not incorporating the mandatory and/or recommended revisions to the formal solicitation made by the Contract Advisory Team Review and Delegation (CATRAD) ▪ HUB Subcontracting Plan (HSP) <p>____ Purchase Order Change Notice (POCN) for extending/renewing a contract (created prior to the expiration of contract) (if applicable)</p> <p>____ Emergency justification letter with authorized signature (if applicable)</p> <p>____ Proprietary justification letter with authorized signature (if applicable)</p> <p>____ Internal repair statement must be documented on PO (labor charges and parts must be included)</p> <p>____ Electronic State Business Daily (ESBD) posting printout if purchase is over \$25,000</p> <p>____ EPLS printout, prior to contract award</p>
<p>PCC T</p> <p>EMERGENCY PURCHASES OF GOODS AND SERVICES EXCEEDING \$25,000 (continued)</p>	<p>____ PO with authorized signature</p> <ul style="list-style-type: none"> • Projected beginning and end date of contract • NIGP Class-Item Codes listed <p>____ Invoice must match PO</p> <p>____ All affirmations and applicable clauses included</p> <p>____ Signed bid from awarded vendor</p> <p>____ Emergency justification letter with authorized signature</p> <p>____ Electronic State Business Daily (ESBD) posting printout if purchase is over \$25,000</p> <p>____ Required statements for an emergency purchase</p> <ul style="list-style-type: none"> • Nature of emergency and cause • Estimated impact or damage either financial or otherwise that will occur by following normal procurement practices (general statements of loss or normal damage are not acceptable) <p>____ EPLS printout, prior to contract award</p>

<p>PCC X</p> <p>TEXAS MULTIPLE AWARD SCHEDULE (TXMAS)</p>	<p><i>As of 9-1-2007 PCC X does not include TXMAS Schedule 70 contracts</i></p> <p>_____ PO with authorized signature</p> <ul style="list-style-type: none"> • Delivery terms and/or contract term defined • NIGP Class-Item Codes listed <p>_____ State TXMAS contract number on PO</p> <p>_____ PO forwarded to TPASS or entered into TPASS's automated system</p> <p>_____ Proprietary letter with authorized signature (if applicable)</p> <p>_____ Best value statement must be documented on the PO (if applicable)</p> <p>_____ Electronic State Business Daily (ESBD) award posting printout if purchase is over \$25,000</p>
<p>EXEMPT PURCHASES</p>	<p>_____ PO with authorized signature</p> <ul style="list-style-type: none"> • NIGP Class-Item Codes listed <p>_____ Legal cite applicable to the purchase must be listed on the purchase documentation (required)</p> <ul style="list-style-type: none"> ▪ Example: TGC, Section 2162.105 <p>_____ Invoice must match PO</p> <p>_____ Electronic State Business Daily (ESBD) posting printout if purchase is over \$25,000</p> <p>_____ EPLS printout, prior to contract award</p> <p><i>NOTE: Utility payments made using a payment instrument OTHER THAN a purchase order need not contain a purchase order number.</i></p>
<p>NOT ADDRESSED BY PCC CODE</p>	<p>_____ State Use Report</p> <p>The State Use Report is a legislatively mandated report submitted by the 15th of each month listing purchases made as an exception to Human Resource Code 122.014 regarding specifications of products and services for sale to state agencies by TIBH.</p> <p>_____ Procurement Plan (Due by November 30th)</p> <p>An agency must submit an entire Procurement Plan for each fiscal year. Updates must be submitted as necessary. If there are no updates to the plan in a fiscal year, a letter must be sent to indicate there are "no changes". Procurement Plan submittals or "no change" letters are due by November 30th of each year.</p> <p>_____ Contract Advisory Team Review and Delegation (CATRAD) Major contract solicitations of \$1 million or greater in value must be submitted to CAT through the CATRAD System.</p>