

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

STATE OFFICE OF ADMINISTRATIVE HEARINGS Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2021

STATE OFFICE OF ADMINISTRATIVE HEARINGS
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2021

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CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Kristofer Monson
Chief Administrative Law Judge
State Office of Administrative Hearings
Austin, Texas

We performed tests of management's assertion about the effectiveness and efficiency of the internal control structure over SOAH's Procurement/Contract Management/Historically Underutilized Businesses (HUB) Area (the Area); and, its compliance with the state requirements set by the Texas Comptroller of Public Accounts; and, SOAH's established policies and procedures, as applicable to the Area, for the 7 months ended March 31, 2021.

The results of our tests disclosed that SOAH's internal control structure over the Area and its established policies and procedures, were generally adequate and no material instances of noncompliance were noted; however, we did identify certain matters that are included in this report, that are opportunities for strengthening internal controls and ensuring compliance with state requirements and SOAH's established policies and procedures. Based on the degree of risk or effect of these matters in relation to the audit objective(s), these matters were rated as either Priority, High, Medium, or Low, which is further described in the "Summary and Related Rating of Observations/Findings and Recommendations", included in page 12 of this report.

We also performed a follow-up of the findings and recommendations that were not fully implemented as of fiscal year ended August 31, 2020 and presented in the prior year annual internal audit report. This report reflects the results of our follow-up procedures performed and the implementation status of those matters; and, includes all information required for compliance with the State of Texas Internal Audit Annual Report requirements.

We have discussed the comments and recommendations from the audit of the Area; and, the implementation status from the follow-up performed, with various SOAH personnel, and we will be pleased to discuss them in further detail; to perform an additional study of these matters; or, to assist you in implementing the recommendations made.



May 3, 2021

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INTRODUCTION

The State Office of Administrative Hearings (SOAH) was established in 1991 by the 72nd Legislature to serve as the State's independent forum to conduct adjudicative hearings in the executive branch of state government. The establishment of SOAH separates the adjudicative function from the investigative, prosecutorial, and policymaking functions performed by state agencies and also by local governmental entities (collectively "Agencies" in this report). SOAH's enabling statute is the Texas Government Code Chapter 2003, and its procedural rules are found in Title 1, Part 7 of the Texas Administrative Code.

SOAH is headed by a Chief Administrative Law Judge (ALJ) who is appointed by the Texas governor for a renewable two-year term. The Chief ALJ serves as SOAH's executive director and is responsible for agency operations and policymaking, since SOAH does not have a governing board. To be eligible for appointment as the chief ALJ, the individual must be licensed to practice law in Texas, and have practiced administrative law and/or conducted administrative hearings under the Texas Administrative Procedure Act for at least five years combined. The chief ALJ hires the ALJs to conduct hearings. An ALJ must be licensed to practice law in Texas, and is only responsible to the chief ALJ or the senior or master ALJs, as designated by the chief ALJ. SOAH's ALJs are not responsible to or subject to the supervision, direction, or indirect influence of any individuals from the referring agency.

SOAH's key activities include the following:

- **Administrative License Revocation (ALR) program** provides contested hearings before SOAH for administrative suspension, denial, or disqualification of a driver's license by the Texas Department of Public Safety (DPS). SOAH oversees these hearings and issues final decisions concerning individuals accused of allegedly driving while intoxicated. ALRs are the most common type of contested cases heard by SOAH.
- **Administrative Hearings** are conducted for contested cases under the Government Code Chapter 2001, the Administrative Procedure Act, for a state agency that does not employ an administrative judge; when SOAH is required to conduct the administrative hearing by other law; and, for a fee and under a contract, matters voluntarily referred by a governmental entity. SOAH issues an order, a proposal for decision, or final decision on these cases in accordance with applicable state rules.
- **Alternative Dispute Resolution (ADR) Procedures**, such as mediations, assist parties involved in contested cases to come to an agreement to avoid more costly and lengthy administrative hearings, where appropriate.

The majority of SOAH's staff are ALJs who preside over cases and issue proposals for decision and/or orders. SOAH organizes these ALJs into the following 7 teams, by subject area:

- 1) ADR
- 2) ALR & Field Operations
- 3) Central Panel
- 4) Individuals with Disabilities Education Act (IDEA)
- 5) Master Panel
- 6) Tax
- 7) Utilities

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Each ALJ is assigned to a *Home Team*, but often also works on cases in other subject areas. While all ALJs must meet a minimum level of experience, there are specific experience requirements to preside at contested case hearings for natural resources, tax, and utilities. In addition to SOAH's own procedural rules, including those for ALR and the appraisal review board appeals, in certain cases, SOAH also uses other procedural rules from the Public Utility Commission of Texas; the Texas Commission on Environmental Quality; the Comptroller of Public Accounts; the Employees Retirement System of Texas; and, the statutes and rules related to IDEA and the Texas Education Agency.

Hearings are held at SOAH's main office in Austin, and 7 field offices located in Corpus Christi, Dallas, El Paso, Fort Worth, Houston, Lubbock, and San Antonio. ALR hearings are also held at 31 additional remote locations which are typically local government offices.

2021 Internal Audit Plan

Following is the internal audit and other functions performed, as identified in SOAH's *Internal Audit Plan for Fiscal Year 2021*, dated February 2, 2021 and submitted to the Chief ALJ on February 8, 2021:

- Risk Assessment & Preparation of the 2021 Internal Audit Plan
- Procurement/Contract Management/HUB Area
- Follow-up of Prior Year Internal Audits
- Preparation of the 2021 Internal Audit Annual Report
- Other Tasks

This report contains the results of our audit of the Procurement/Contract Management/HUB Area; reflects the results of the follow-up procedures performed in the current year of findings that were outstanding as of fiscal year ended August 31, 2020 and presented in the prior year internal audit report; and, meets the State of Texas Internal Audit Annual Report requirements.

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INTERNAL AUDIT OBJECTIVES

In accordance with the **International Standards for the Professional Practice of Internal Auditing**, the audit scope encompassed the examination and evaluation of the adequacy and effectiveness of SOAH's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope includes the following objectives:

- **Reliability and Integrity of Financial and Operational Information** – Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- **Compliance with Policies, Procedures, Laws, Regulations, and Contracts** – Review the systems established to ensure compliance with those policies, procedures, laws, regulations, and contracts that could have a significant impact on operations and reports, and determine whether the organization is in compliance.
- **Safeguarding of Assets** – Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- **Effectiveness and Efficiency of Operations and Programs** – Appraise the effectiveness and efficiency with which resources are employed.
- **Achievement of the Organization's Strategic Objectives** – Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

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I. Compliance with Texas Government Code 2102: Required Posting of Internal Audit Information

To comply with the provisions of Texas Government Code, Section 2102.015 and the State Auditor's Office guidelines, within 30 days after acceptance by SOAH's Chief Administrative Law Judge, SOAH will post the following information on its website:

- An approved fiscal year 2022 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2021 internal audit annual report, as required by Texas Government Code, Section 2102.009.

The internal audit annual report includes any weaknesses, deficiencies, wrongdoings, or other concerns raised by internal audits and other functions performed by the internal auditor as well as the summary of the action taken by SOAH to address such concerns.

II. Consulting and Nonaudit Services Completed

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and/or a non-audit service, as defined in the *Government Auditing Standards, 2018 Revision*, Sections 3.64-3.106.

III. External Quality Assurance Review

The internal audit department's most recent *System Review Report*, dated November 16, 2018, indicates that its system of quality control has been suitably designed and conforms to applicable professional standards in all material respects.

IV. Internal Audit Plan for Fiscal Year 2021

The approved Internal Audit Plan (Plan) included one audit to be performed during the 2021 fiscal year. The Plan also included a follow-up of the prior year internal audit recommendations that were not fully implemented as of fiscal year ended August 31, 2020; other tasks, as assigned by SOAH's Chief Administrative Law Judge; and, preparation of the Annual Internal Audit Report for fiscal year 2021.

Risk Assessment

Utilizing information obtained through the inquiries and background information reviewed, 11 areas were identified as potential audit topics. A risk analysis utilizing our 8 risk factors was completed for each individual audit topic and then compiled to develop an overall risk assessment.

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Following are the results of the risk assessment performed for the 11 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Information Resources Procurement/ Contract Management/ HUB	Docketing (excludes ALR Hearings) ALR Docketing and Hearings Support Hearings Support (excludes ALR Hearings)	Accounting (Cash Receipts/ Disbursements/ Travel) & Budgeting Fixed Assets Human Resources & Payroll Interagency Contract Billing and Invoicing Records Management Performance Measures

In the prior 3 years, the following internal audits and other functions were performed:

Fiscal Year 2020:

- Risk Assessment & Preparation of the Internal Audit Plan
- Records Management
- Follow-up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2019:

- Risk Assessment & Preparation of the Internal Audit Plan
- Human Resources & Payroll
- Follow-up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2018:

- Risk Assessment & Preparation of the Internal Audit Plan
- Docketing
- Follow-up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

The internal audit and other tasks performed for fiscal year 2021 were as follows:

<u>Report No.</u>	<u>Audits/Report Titles</u>	<u>Report Date</u>
1.	Procurement/Contract Management/HUB Area <i>Objective:</i> To assess the effectiveness and efficiency of the internal controls, policies, procedures, and processes in place for the Procurement/Contract Management/HUB Area (Area); and, to determine compliance with applicable state requirements.	5/3/2021
1.	Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits	5/3/2021
-	Other Tasks Assigned by SOAH’s Chief Administrative Law Judge	None

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V. Executive Summary

Procurement/Contract Management/HUB Area

Background

The Procurement/Contracting/HUB Area (Area) of the Finance Department is responsible for processing agency purchases in accordance with applicable state and federal purchasing laws. The Area is also responsible for complying with the solicitation, contract posting, and reporting requirements, as established by state requirements. Applicable state purchasing statutes are located in the Texas Government Code (TGC), Title 10, Subtitle D. *State Purchasing and General Services Act*; and, Subtitle F. *State and Local Contracts and Fund Management*; while, corresponding rules are in Title 34 of the Texas Administrative Code (TAC) Chapter 20 *Statewide Procurement and Support Services*. The Texas Comptroller of Public Accounts (the Comptroller) Statewide Procurement Division (SPD) has developed the *Texas Procurement and Contract Management Guide* (the Guide) to assist state agencies in complying with these state requirements.

The Area is supervised by the Finance Director, who reports directly to the Chief Operating Officer/Chief Financial Officer (COO/CFO), and consists of two Purchasers. The Finance Director is SOAH's certified contract manager; and, along with one of the two Purchasers, is a certified contract developer. State agency purchasing employees must adhere to the same ethical standards required of the Comptroller's employees; such as, prohibition of financial interest in, and gift/compensation from, contracting entities.

During the audit period, September 1, 2020 to March 31, 2021, the Area processed 122 purchases and contracts totaling \$1,636,002.

Purchasing Process

SOAH requires all purchase requests to be initiated through the purchasing requisition process within the Centralized Accounting and Payroll/Personnel System (CAPPS). Requisitions are first routed to the requestor's supervisor for approval, and then go through the respective approval path in CAPPS, which is dictated by type and value of the purchase. Requests for small purchases; such as, supplies, are often initiated and processed by the Area. Based upon the type and amount of the purchase, the Area determines the proper procurement method and Purchase Category Code (PCC). For commodity purchases, state agencies must first consider purchasing from the following:

- Set-aside programs (Texas Correctional Industries (TCI) Program and Purchasing from People with Disabilities Program commonly referred to as the State Use Program)
- Department of Information Resources (DIR) contracts
- SPD term contracts (Texas SmartBuy)

Purchases from the set-aside programs and term contracts do not require state agencies to go through a vendor evaluation process.

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If suitable vendors are not found in the preferred methods above, the Area follows the SPD's *Delegated Purchase Method*, up to the delegation limits of \$50,000 for goods and \$100,000 for services. A delegation request must be individually approved by the SPD for purchases that exceed the delegation limit. Under the Delegated Purchase Method, the solicitation requirements below apply, unless explicitly exempted by statute. In such cases, the purchaser must document the underlying legal citation.

Purchase/Contract Value	Solicitation Requirement
Up to \$5,000	Competitive process not required.
\$5,000.01 - \$25,000	Informal competitive solicitation required.
Over \$25,000	Formal competitive solicitation required.

Agencies must utilize the Centralized Master Bidders List (CMBL) and Historically Underutilized Businesses (HUB) Directory Search to identify vendors for solicitation. Different purchasing rules apply to certain purchases other than commodity; such as, IT, and professional and consulting services. The Area utilizes a procurement checklist to ensure compliance with the state purchasing requirements; and, supporting documentation is properly retained in the respective procurement file.

Vendor Compliance Verification

Prior to finalizing a purchase, state agencies must perform the following vendor compliance verification checks:

- SPD Debarment Check
- System for Award Management (SAM) Exclusion Check
- Iran, Sudan, & Foreign Terrorist Organization Check
- Boycott Israel Check
- Warrant/Payment Hold Check

Contracts Posting and Reporting

To ensure transparency, state agencies must post/report the following information for certain contracts during solicitation and post-award, depending on the contract type and dollar value.

- **Texas Register** – solicitation of consulting services contracts of more than \$15,000.
- **Electronic State Business Daily (ESBD)** – solicitation and award of all contract types of more than \$25,000.
- **LBB Reporting** – contract awards of more than \$14,000 for construction, professional services, and consulting services; and, of more than \$50,000 for all other contract types.
- **Agency Website Postings** – All contracts not reported to the LBB.

Contract Management

The Risk Assessment Matrix (the matrix) is a tool used by SOAH to analyze contracts for areas of risk (the potential for loss, harm, or damage that may occur due to errors or problems associated with a contractor's performance) which allows staff to identify specific areas that may need accelerated or heightened monitoring. The matrix is completed for each new solicitation and is assessed throughout the contract period. Enhanced contract monitoring may also be requested by the Contract Manager or Executive Management.

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Upon contract award, a post-award conference is held by the Contract Manager with the contractor, where monitoring and communication plans are established, to ensure there is a clear and mutual understanding of all contract terms and conditions; and, that anyone involved directly in the contract administration process understands all contract performance requirements.

At the end of the contract period, the Contract Manager will obtain the required signatures to finalize the contract and inform the Area to liquidate any remaining encumbrances. For purchases in excess of \$25,000, a report of the vendor performance is required to be entered into the Comptroller's Vendor Performance Tracking System.

HUB Compliance

TGC Chapter 2161 outlines the statewide HUB compliance requirements and grants responsibility to the Comptroller for adopting rules to administer the statewide HUB Program for businesses owned by minority, women, and certain service-connected disabled veterans. State agencies must track HUB purchases, and plan and make good-faith efforts in meeting the statewide HUB purchasing goals specified in 34 TAC §20.284. The table below shows SOAH's fiscal year 2020 HUB purchases, which is the most recent data available, as reported by the Comptroller:

Procurement Category	Statewide Goal	SOAH FY20 ⁽¹⁾		
		Total \$	HUB \$	HUB %
Heavy Construction	11.2%	\$ -	\$ -	-%
Building Construction	21.1%	\$ -	\$ -	-%
Special Trade	32.9%	\$ 692	\$ -	-%
Professional Services	23.7%	\$ 67,600	\$ 67,600	100.00%
Other Services	26.0%	\$ 461,352	\$ 352,658	76.44%
Commodity Purchases	21.1%	\$ 254,867	\$ 126,096	49.48%
Overall		\$ 784,512	\$ 546,354	69.64%

(1) Source: Fiscal Year 2020 HUB Consolidated Annual Report for SOAH, obtained from Comptroller's website.

State agencies are required to semiannually report the following HUB Supplemental Data to the Comptroller:

- HUBs submitting bids / proposals
- Number of contracts awarded (HUBs and Non-HUBs)

In accordance with TGC Chapter 2161, Subchapter C. *Planning and Reporting Requirements*, SOAH has:

- included in the 2021-2025 Strategic Plan a written plan for increasing the agency's use of HUBs in purchasing;
- prepared the HUB Progress Report which was included in the fiscal year 2020 Annual Report of Nonfinancial Data; and,
- included in the 2022-23 Legislative Appropriation Request, a report that shows:
 - SOAH's goals for contracting HUBs during the 2 preceding years, and whether the goals were met; and,
 - if the goals were not met, percentages by which the goals were not met and an explanation.

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Audit Objective, Scope, and Methodology

Objective

The objective of our audit was to assess the effectiveness and efficiency of the internal controls, policies, procedures, and processes in place for the Procurement/Contract Management/HUB Area (Area); and, to determine compliance with applicable state requirements.

Scope

The scope of this audit was to review selected purchases/contracts to test compliance with SOAH's established policies and procedures, processes, controls; and, state requirements, for the 7-month period from September 1, 2020 through March 31, 2021 (audit period).

Methodology

The audit methodology included a review of laws and regulations, SOAH's established policies and procedures, and other internal and external documentation; and, interviews with selected SOAH staff.

We obtained and/or reviewed the following information:

- a. Texas Government Code, Title 10, Subtitle D. *State Purchasing and General Services* and Subtitle F. *State and Local Contracts and Fund Management*.
- b. Title 34 Texas Administrative Code Chapter 20. *Statewide Procurement and Support Services*.
- c. State of Texas Procurement and Contract Management Guide version 1.3 (the Guide) developed by the Texas Comptroller of Public Accounts (the Comptroller) Statewide Procurement Division (SPD).
- d. SOAH's Contracts and Purchasing Procedures and Contract Management Guide.
- e. SOAH's fiscal year 2021 Agency Procurement Plan.
- f. The Area's organizational chart.
- g. Listing of purchases and contracts (collectively "purchases") made during the audit period.
- h. Procurement files of selected purchases/contracts during the audit period, and the procurement file for a contract competitively procured in fiscal year 2020.
- i. Texas Purchasing from People with Disabilities Monthly Purchasing Summary for SOAH obtained from the Comptroller's website.
- j. Conflict of Interest Forms signed by the Area's staff.
- k. Examples of the procurement checklists and contract templates used by the Area.
- l. Contract Manager and Contract Developer certifications.
- m. List of contracts and POs reported on SOAH's website.
- n. List of SOAH contracts and POs reported on the LBB contract database.
- o. 2022-2023 Legislative Appropriations Request.
- p. Fiscal Year 2020 Annual Consolidated HUB Report for SOAH obtained from the Comptroller's website.
- q. Semi-Annual HUB supplemental report for the period of September 2020 through February 2021.

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We performed various procedures to achieve the objective of our audit; to include, the following:

1. Obtained and reviewed SOAH's written policies and procedures; applicable laws and regulations; and, conducted interviews to obtain an understanding of controls, processes and current practices in place over the Area.
2. Obtained and reviewed the applicable state requirements as established by the SPD.
3. Verified that Area staff maintain active certification status and have signed the Conflict of Interest form for fiscal year 2021.
4. Reviewed submission records of the fiscal year 2021 Agency Procurement Plan to verify timeliness.
5. Reviewed SOAH's contracts/POs reported to the LBB during the audit period to ensure all contracts/POs exceeding the required thresholds were properly reported; and, ensured all other contracts/POs were reported on the agency website in accordance with Texas Government Code §2261.253.
6. Reviewed the 2022-2023 Legislative Appropriations Request to ensure compliance with Texas Government Code §2261.127 for HUB reporting requirements.
7. Selected 20 purchases made during the audit period to test for the following attributes, as considered applicable, to assess compliance with state requirements; and, to determine whether SOAH's internal controls over procurement are operating effectively:
 - a. The purchase was reasonable.
 - b. Appropriate procurement method was selected.
 - c. Proper PPC and NIGP codes were used.
 - d. The procurement file included all required documentation, as identified in the applicable procurement checklist.
 - e. Preferred vendors were utilized when available, and justification was documented for any exemptions.
 - f. All required vendor compliance verification checks were performed prior to the purchase.
 - g. Contract and purchase amendments are traceable and all versions are on file.
 - h. Contract was reported to the Legislative Budget Board or posted to SOAH's website.
 - i. Contract was posted to the Electronic State Business Daily (ESBD).
 - j. Proper procurement checklist was used based on the Purchas Category Code (PCC).
 - k. Proper approval was obtained based on contact/PO amount.
8. Selected 1 contract competitively procured during fiscal year 2020 to test for the following attributes, to assess compliance with state requirements and to determine whether SOAH's internal controls over contract management are operating effectively:
 - a. Risk Assessment Matrix was properly completed.
 - b. Terms and conditions were included in the solicitation package and contract.
 - c. Contract was signed by the Chief Administrative Law Judge.
 - d. SOAH submitted its delegation request to the Comptroller through the Procurement Oversight & Delegation Portal; and, the Comptroller's review of the specification and delegation of authority was maintained in the procurement file.
 - e. A report of the vendor performance was entered into the Comptroller's Vendor Performance Tracking System.
 - f. Evidence that contract monitoring was performed.
 - g. Individual evaluation committee member scoring matrixes and bid tabulations were maintained in the procurement file.

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VI. Observations/ Findings and Recommendations

SUMMARY and RELATED RATING of OBSERVATIONS/FINDINGS and RECOMMENDATIONS

As SOAH’s internal auditors, we used our professional judgment in rating the audit findings identified in this report. The rating system used was developed by the Texas State Auditor’s Office and is based on the degree of risk or effect of the findings in relation to the audit objective(s). The table below presents a summary of the observations/findings in this report and the related rating.

Summary of Observations/Findings & Recommendations and Related Ratings		
Finding No.	Title	Rating
1	Legislative Budget Board (LBB) Contract Reporting	Moderate
2	Procurement File Checklists	Low
3	Procurement Testing	Moderate
4	Contract Management	Moderate
Observation No.		
1	Texas Purchasing from People with Disabilities (TPPD) Supporting Documentation	-
2	Contract Monitoring Policies & Procedures	-
<p><u>Description of Rating</u></p> <p>A finding is rated <i>Priority</i> if the issues identified present risks or effects that if not addressed could critically affect the audited entity’s ability to effectively administer the programs(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.</p> <p>A finding is rated <i>High</i> if the issues identified present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the programs(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.</p> <p>A finding is rated <i>Medium</i> if the issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer programs(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.</p> <p>A finding is rated <i>Low</i> if the audit identified strengths that support the audited entity’s ability to administer the programs(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the programs(s)/function(s) audited.</p>		

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OBSERVATIONS/FINDINGS and RECOMMENDATIONS

Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Fiscal Impact/ Other Impact
1	5/3/2021	Procurement/Contract Management/HUB	<p>1. Legislative Budget Board (LBB) Contract Reporting</p> <p>Contracts and purchase orders (POs) that have a value exceeding \$50,000 are required to be reported to the LBB. Our search for 11 SOAH POs over \$50,000 on the LBB Contract Database disclosed the following:</p> <ul style="list-style-type: none"> a. Four leases for office spaces were not reported to the LBB, due to management making that decision since they are managed by the Texas Facilities Commission and not controlled by SOAH. b. The contract amount reported on the LBB Contract Database for one PO did not agree to the actual PO amount due to a change order made subsequent to submission and SOAH not aware the amount could be revised or updated. <p>Recommendation</p> <p>We recommend that SOAH obtain guidance from the LBB on the requirement to report the leases, due to their unique nature; ensure all change orders and amendments made to reported contracts are properly updated in the LBB database; and, provide Purchasing staff with needed training on the state reporting requirements.</p> <p>Management's Response</p> <p>SOAH is in agreement with the finding and has received guidance from the LBB to report TFC lease agreements assigned to SOAH. SOAH will update its LBB contract reporting procedures to include TFC lease agreements.</p>	To ensure compliance with the LBB reporting requirements.
			<p>2. Procurement File Checklists</p> <p>Per SOAH's Contract and Purchasing Procedures, a procurement file checklist is utilized, as a tool for ensuring all items applicable to the procurement are included in the procurement file to ensure compliance with applicable procurement statutes, rules, and agency policies and procedures. Our review of 20 procurement files disclosed 5 instances where the procurement file checklist was not included in the procurement file.</p> <p>Recommendation</p> <p>We recommend that SOAH implement controls that will ensure procurement file checklists are utilized for all procurement files to comply with established policies and procedures.</p> <p>Management's Response</p> <p>SOAH is in agreement with the finding and has fully implemented it. SOAH had turnover in purchasing staff during this period. SOAH's Finance Director has ensured the current purchasing staff only use the correct form and procedure. All purchasing staff have been trained in its proper use.</p>	To ensure compliance with SOAH's policies & procedures.

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Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Fiscal Impact/ Other Impact
1	5/3/2021	Procurement/Contract Management/HUB	<p>3. Procurement Testing</p> <p>Our testing of 20 purchases made during the audit period disclosed the following:</p> <ol style="list-style-type: none"> a. In 1 instance, the Purchase Order Change Notice lacked the Purchaser’s signature as evidence of approval. b. Documentation was not included in the procurement files to denote that the following required vendor compliance checks were made: <ul style="list-style-type: none"> • 3 instances of missing SPD debarment checks; • 2 instances of missing SAM checks; • 3 instances of missing Iran, Sudan, & Foreign Terrorist Organization checks; • 3 instances of missing Boycott Israel checks; and, • 3 instances of missing warrant/payment hold checks. <p>Recommendation</p> <p>We recommend that SOAH implement a quality control procedure that will ensure all required approval signatures are obtained for purchase order change notices; and, that documentation is retained in procurement files to denote performance of required vendor compliance checks.</p> <p>Management’s Response</p> <p>SOAH is in agreement with the finding. All purchasing staff have been retrained in the proper procedure to save signed documents in the procurement files. This recommendation has been fully implemented.</p> <p>4. Contract Management</p> <p>The procurement file for a contract competitively procured in fiscal year 2020 did not contain the risk assessment tool, the individual evaluation committee member scoring matrixes, or evidence that contract monitoring procedures were performed.</p> <p>Recommendation</p> <p>We recommend that SOAH enhance their contract management procedures to ensure all required documentation is maintained in the procurement file.</p> <p>Management’s Response</p> <p>SOAH agrees with the recommendation. SOAH had turnover in purchasing staff at the time of this procurement. Although the documents had been completed, they were not kept in the procurement file as expected. SOAH’s Finance Director will enhance the procedures to ensure all required documentation is maintained and provided prior to a purchaser leaving SOAH’s employment.</p> <p style="text-align: center;">OBSERVATIONS</p> <p>1. Texas Purchasing from People with Disabilities (TPPD) Supporting Documentation</p> <p>Per the Texas Procurement and Contract Management Guide, on a monthly basis, each agency that purchases products or services through WorkQuest must report through the State Use Program exception reporting tool in txsmartbuy.com, the reason that products or service that could have been purchased from WorkQuest, were purchased from another source. Each state agency is also required to report the total dollar amount of goods and services purchased from WorkQuest for the reporting month.</p> <p>Per review of the website, we were able to confirm that SOAH reported the total dollar amount of goods and services purchased monthly during the audit period; however, there were no exceptions reported during the audit period. Since SOAH does not maintain supporting documentation used for reporting, we were unable to verify the accuracy of their reporting.</p>	<p>To ensure compliance with state requirements set by the Texas Comptroller of Public Accounts.</p> <p>To ensure compliance with SOAH’s policies & procedures.</p> <p>To ensure compliance with state requirements set by the Texas Comptroller of Public Accounts</p>

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1	5/3/2021	Procurement/Contract Management/HUB	<p>Recommendation</p> <p>We recommend that SOAH retain all supporting documentation used for TPPD reporting to allow validation of the accuracy for the reported data.</p> <p>Management’s Response</p> <p>SOAH agrees with this recommendation. It will update the Contract and Purchasing procedures to include maintaining supporting documentation and train staff on the retention of supporting documentation for TPPD reporting.</p> <p>2. Contract Monitoring Policies & Procedures</p> <p>Although SOAH’s Contract Management Guide discusses the need for monitoring performance of contracts and enhanced contract monitoring, monitoring methods and follow-up actions are not defined. The Texas Procurement and Contract Management Guide (the Guide) states that agencies should implement a monitoring program that has well-defined follow-up actions.</p> <p>SOAH’s Contract Management Guide also does not include policies and procedures that require telephone calls and meetings with vendors to be substantiated in writing and maintained as part of the procurement file. The Guide requires that the date and time that phone calls or meetings occurred as well as a summary of topics discussed (<i>e.g.</i>, meeting minutes) including pending action items and decisions that were made are documented and maintained.</p> <p>Recommendation</p> <p>We recommend that SOAH update their Contract Management Guide to align with requirements of the Guide.</p> <p>Management’s Response</p> <p>SOAH agrees with this recommendation and will update its Contract Management Guide to align with the Texas Procurement and Contract Management Guide.</p>	<p>To ensure compliance with state requirements set by the Texas Comptroller of Public Accounts</p>

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1	5/3/2021	2021 Follow-Up	<p style="text-align: center;"><u>Follow-Up of Prior Year Internal Audits</u></p> <p><i>Following is the status of the recommendations made during previous fiscal years that had not been fully implemented.</i></p> <p><u>Records Management (Report date 3/31/2020)</u></p> <p>1. Records Management Program Documentation</p> <p>SOAH should continue its effort in developing, documenting, finalizing, and implementing its records management policies and procedures. All employees should receive adequate training to understand their roles and responsibilities in the records management program.</p> <p>2. Case Records Management</p> <p>SOAH supervisors and/or RMO should remind ALJs the importance in timely processing of the Exhibit List and Certification (the Certification); and, to provide the exhibits and the Certification to the Chief Clerk within 3 business days of the hearing to ensure compliance with TAC §155.423 (f)(2).</p> <p><i>Explanation for FY21 Status</i></p> <p>Although our testing indicated that SOAH is in compliance with TAC §155.423 (f)(2), we were unable to determine if SOAH is in compliance with their 3-business days internal procedure due to pertinent dates not being documented. Furthermore, we could not obtain confirmation that the 3-business day internal procedure is still in practice.</p> <p>3. Archival Records</p> <p>SOAH should establish procedures to ensure compliance with the final disposition requirement of TAC §6.8(b)(1), which requires that upon final disposition of state records, an agency ensure that archival state records scheduled to be preserved by TSLAC are transferred to TSLAC.</p> <p><i>Explanation for FY21 Status</i></p> <p>Although SOAH does not have formal procedures documented, SOAH has sent one record series to TSLAC for archival review; and, is waiting TSLAC’s determination whether or not it needs to be archived.</p>	<p>Fully Implemented</p> <p>Substantially Implemented</p> <p>Incomplete/Ongoing</p>

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1	5/3/2021	2021 Follow-Up	<p><u>Docketing (Report date 5/1/2018)</u></p> <p style="text-align: center;">OBSERVATIONS</p> <p>1. Policies & Procedures</p> <p>SOAH should consolidate, streamline, or revise its current policies and procedures to be consistent with SOAH’s standard policies and procedures which will ensure policies and procedures are up-to-date to improve efficiency, and eliminate redundant procedures.</p> <p><i>Explanation for FY21 Status</i></p> <p>SOAH’s effort in consolidating formal policies and procedures is still ongoing, since a new system will be implemented that will synchronize with eFile, and many of the finalized versions will be revised.</p> <p><u>Hearings Support (Report date 6/30/2017)</u></p> <p style="text-align: center;">OBSERVATIONS</p> <p>1. Policies and Procedures</p> <p>Policies and procedures which were in draft form should be reviewed and finalized to ensure all employees involved in the Hearings Support area perform processes in a uniform manner.</p> <p><i>Explanation for FY21 Status</i></p> <p>Policies and procedures have been finalized and posted on SOAH’s intranet under the Hearings Notebook, which has replaced the Administrative Assistant Handbook; however, the Confidential Cases policy is still in draft form and has not yet been finalized.</p> <p>2. Agency-Specific Procedures</p> <p>Agency-specific policies, procedures, current practices, interagency contracts, and adopted procedural rules should be reviewed in detail to determine if procedures can be consolidated, streamlined, or revised to be consistent with SOAH’s standard policies and procedures, which will alleviate the assistants’ excessive duties, improve efficiency, and eliminate redundant procedures.</p> <p><u>Information Resources (Report date 7/1/2016)</u></p> <p>1. Ongoing Employee Training Program</p> <p>SOAH should establish and document a formal employee training policy.</p> <p>2. Documentation of Formal Procedures</p> <p>SOAH should formally document and periodically review current control activities and best practices performed by the IR department’s personnel and retain them in a secure location available only to authorized personnel.</p> <p><i>Explanation for FY21 Status</i></p> <p>The review and documentation of SOAH’s current control activities and best practices performed by the IR staff is ongoing. SOAH is in the process of hiring a new network specialist that will focus on improving the areas identified.</p>	<p>Substantially Implemented</p> <p>Substantially Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p> <p>Incomplete/Ongoing</p>

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VII. External Audit Services Procured in Fiscal Year 2021

SOAH procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2021. No other external audit services were performed.

VIII. Reporting Suspected Fraud and Abuse

SOAH has provided information on its website home page on how to report suspected fraud, waste, and abuse to the State Auditor's Office (SAO) by posting a link to the SAO's fraud hotline. SOAH has also developed a Fraud Reporting Policy that provides information on how to report suspected fraud, waste, and abuse to the SAO.

IX. Proposed Internal Audit Plan for Fiscal Year 2022

The risk assessment performed during the 2021 fiscal year was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2022. The Internal Audit Plan for fiscal year 2022 will be developed and presented to the Chief Administrative Law Judge, for acceptance and approval, at a later date.

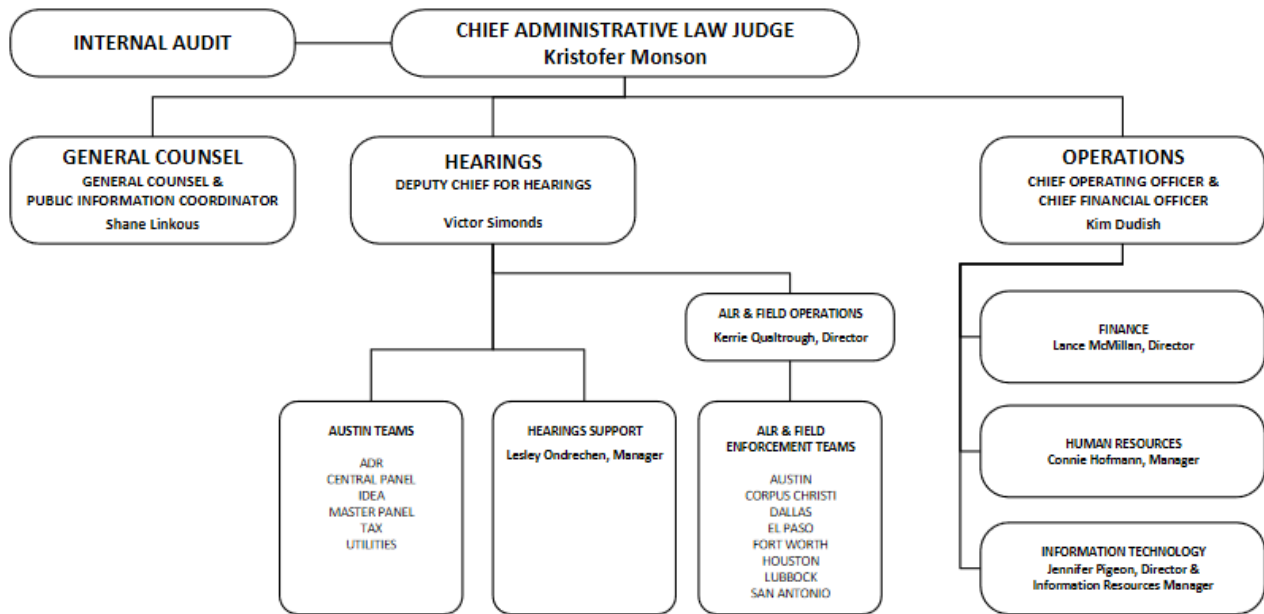
- Information Technology
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Chief Administrative Law Judge

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X. Organizational Chart



Source: SOAH