



# Internal Audit Report

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## Construction Engineering & Inspection (CEI) Invoicing

## Objective

To evaluate the effectiveness and efficiency of the Construction Engineering & Inspection (CEI) invoice review process across districts including tools to assist with the reasonableness and integrity of charges.

## Opinion

Based on the audit scope areas reviewed, control mechanisms require improvement and only partially address risk factors and exposures considered significant relative to impacting reporting reliability, operational execution, and compliance. The organization's system of internal controls requires improvement in order to provide reasonable assurance that key goals and objectives will be achieved. Improvements are required to minimize existing process variation and control gap corrections that may result in potentially significant negative impacts to the organization including the achievement of the organization's business/control objectives.

Overall Engagement Assessment		Needs Improvement		
Finding				
	Title	Control Design	Operating Effectiveness	Rating
Finding 1	Construction Engineering & Inspection (CEI) Invoice Review Process	X	X	Needs Improvement

Management concurs with the above finding and prepared management action plans to address deficiencies.

## Control Environment

Professional Engineering Procurement Services (PEPS) division has established procedures for processing invoices for professional services contracts including Construction Engineering & Inspection (CEI) contracts. Review and approval of CEI invoices includes PEPS Contract Specialists, District Project Managers (PMs), and Financial Management Division accounting specialists. Invoices are received by PEPS Invoice Center and procedures require contract specialists to review 100% of the first invoice for a contract work authorization, and 30% review for subsequent invoices. The 30% review process varies as each contract specialist determines what components of the invoice to review to meet the requirement. Once PEPS has reviewed the invoice, they are sent to the district PM for validation that the services billed were received. The PM review can overlap with the same detail as PEPS Contract Specialist review. The district provides an approval of the invoice payment based on delegation of signature authority (i.e., Area Engineer, Director of Construction, or PM), which can vary between districts.

## Summary Results

Audit testing completed resulting in management action plans.

Finding	Scope Area	Evidence
1	Invoice Review and Approval	<p><u>Invoice Exceptions</u> Review of 275 paid invoices to the five consultants with the highest dollar spend on invoices paid between August 1, 2018 and March 18, 2019, identified the following:</p> <ul style="list-style-type: none"> <li>35 of 275 (13%) invoices reviewed did not have full documentation to support the labor and/or mileage charged totaling \$126,955.</li> <li>6 of 275 (2%) invoices included sub-provider services that were outside of the billing service dates for a total \$13,780.</li> </ul> <p><u>Signature Authority</u> Forty-seven invoices judgmentally sampled were evaluated for conformance with signature authority requirements. Exceptions identified resulted in \$2.7 million being paid despite non-conformance with signature authority requirements.</p> <ul style="list-style-type: none"> <li>22 of 47 (47%) invoices were approved by staff that were not authorized by the Delegation of Signature Authority.</li> </ul>
	Reporting and Data Integrity	<p><u>Data Accuracy</u></p> <ul style="list-style-type: none"> <li>Information analyzed between PS-CAMS, ERP, and the PEPS Invoice Tracker for transactions between August 1, 2018 and March 18, 2019 on CEI invoices was inconsistent between the three systems used to track and pay professional service contract invoices.</li> <li>CEI invoice transactions in ERP and PS-CAMS from September 1, 2016 to March 18, 2019 were analyzed for duplicate dollar amounts paid. Two duplicate payments were identified in ERP and PS-CAMS in the amount of \$171,175.</li> </ul>

Audit testing completed not resulting in management action plans.

Scope Area	Evidence
Invoice Review and Approval	<p>Reviewed staff labor hours and mileage claimed in 275 invoices to the five consultants with the highest dollar spend on invoices paid with a service begin date between August 1, 2018 and January 31, 2019 to determine if duplicate billing occurred. The following was identified:</p> <ul style="list-style-type: none"> <li>No duplication of charges for staff labor and mileage for both prime consultants and sub-providers were noted.</li> </ul>

## Audit Scope and Methodology

The audit was conducted during the period from March 8, 2019 to June 21, 2019. The audit focused on review of contracts for the five consultants with the highest dollar spend on invoices between August 1, 2018 and March 18, 2019 and verification of data reported in the Enterprise Resource Planning System (ERP), the Professional Services Contract Management System (PS-CAMS), and the PEPS Invoice Tracker database.

Scope Area 1: Invoice Review and Approval – Provide assurance that CEI services billed by the five consultants with the highest dollar spend across districts were authorized by the contracts, as well as, verified and approved through the invoice review process.

Methodology included:

- Judgmentally selected the five CEI consultants with the highest dollar spend on invoices paid between August 1, 2018 and March 18, 2019.
  - Reviewed staff labor hours and mileage claimed in all 275 invoices within 41 CEI contracts with a service begin date between August 1, 2018 and January 31, 2019:
    - Analyzed the staff labor hours for the five consultants and sub-providers and mileage claimed to identify any potential double billing.
    - Analyzed the other direct expenses (ODE) relating to traveling such as hotel, hotel taxes, mileage, and per diem to identify potential cost efficiencies.
  - Judgmentally sub-selected 47 of 275 invoices, which included a minimum of one invoice from each of the 41 contacts. The sub-selected invoices were reviewed to evaluate the supporting documentation for other direct expenses (ODE) charges, such as trucks, office equipment, and phones, as well as invoice approval by staff with delegated signature authority within the district.
- Compared the PEPS signature authority spreadsheet utilized for invoice approval validation to the district Delegation of Signature Authority approved by the District Engineer.
- Interviewed PMs for the invoices located in the Austin, Beaumont, Corpus Christi, Dallas, Fort Worth, Houston, Lubbock, Lufkin, Odessa, Paris, San Angelo, San Antonio, Tyler, Waco, Wichita Falls, and Yoakum districts.
- Interviewed seven PEPS Contract Specialists from the PEPS Invoice Center located in Austin, San Antonio, and Pharr.

Scope Area 2: Reporting and Data Integrity – determine if the data captured for monitoring and reporting of all CEI invoices for the period September 1, 2016 to March 18, 2019 was accurate and complete.

Methodology included:

- Evaluated accuracy of amounts and dates within the invoice data between PS-CAMS, ERP, and the PEPS invoice tracker database.
- Reviewed the February 2019 PEPS dashboard metrics to determine accuracy of reporting based on above data validation.
- Analyzed CEI invoice transactions in ERP and PS-CAMS from September 1, 2016 to March 18, 2019 for duplicate dollar amounts paid.

Methodology included within both Scope 1 and Scope 2:

- Reviewed state regulations including Texas Administrative Code § 20.487 Invoicing Standards and Texas Government Code (TGC) § 2261.202 Contract Monitoring Responsibilities, and TGC § 2251 Time of Payment, Disputed Payment, and Interest on Overdue Payment.
- Reviewed federal regulation CFR Title 48, Part 31 for Professional and Consulting Service Costs.
- Conducted interviews with key personnel including the PEPS Deputy Director, PEPS Controls Section Director, PEPS Invoice Center Manager, and Directors of Construction in the districts sampled.

## **Background**

This report is prepared for the Texas Transportation Commission and for the Administration and Management of TxDOT. The report presents the results of the Construction Engineering & Inspection (CEI) Invoicing audit which was conducted as part of the Fiscal Year (FY) 2019 Audit Plan.

CEI contracts are professional service contracts utilized for procuring engineering inspection services to assist TxDOT in overseeing construction projects. CEI contracts are requested by the districts; however, they are procured by the PEPS division. PEPS also assists with coordination, service and oversight of the contracts. As of February 28, 2019, PEPS had executed 193 contracts for a total \$1.2 billion since the first CEI contract in fiscal year 2011. Once a CEI contract is executed, the consultants are overseen by the district area office and PM assigned to the construction project.

Invoices for CEI contracts are processed by the PEPS Invoice Center which was centralized in August 2018. Multiple systems are utilized by PEPS for tracking and payment of CEI invoices including:

- PEPS Invoice Tracker Database – to track the status and timeliness of the invoice review,
- PS-CAMS – to track payments against the maximum contract amount, and
- ERP – to document and pay the invoices.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Recommendations to mitigate risks identified were provided to management during the engagement to assist in the formulation of the management action plans included in this report. The Internal Audit Division uses the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework version 2013.

A defined set of control objectives was utilized to focus on reporting, operational, and compliance goals for the identified scope areas. Our audit opinion is an assessment of the health of the overall control environment based on (1) the effectiveness of the enterprise risk management activities throughout the audit period and (2) the degree to which the defined control objectives were being met. Our audit opinion is not a guarantee against

reporting misstatement and reliability, operational sub-optimization, or non-compliance, particularly in areas not included in the scope of this audit.

### **Best Practices**

To ensure an effective review of invoices, one area office created a CEI Invoice Checklist that was utilized for CEI invoice reviews. The checklist has key considerations including verification of the provider's monthly staffing list, timesheets, and time charges compared to available supporting documentation (i.e., daily work reports, meeting sign-in sheets, emails). The checklist also includes validation of available funds for the work authorization and contract maximum.

## Detailed Findings and Management Action Plans (MAP)

### Finding No. 1: Construction Engineering & Inspection (CEI) Invoice Review Process

#### Condition

Efficiency and accuracy of the CEI Invoice review and payment process needs improvement due to incomplete documentation and exceptions relating to billing rates, service dates, and delegation of approval authority, as well as manual entry into three systems for tracking and payment.

#### Effect/Potential Impact

Overlap of the items reviewed by the Professional Engineering Procurement Services (PEPS) Contract Specialist and district Project Managers (PMs) as well as entering invoice information into three different systems is a manual process and reduces the efficiency opportunities. Payments to CEI consultants for invoices that have not been fully supported or contain exceptions could result in inaccurate payments. Duplicate invoice payments were identified; and repayment of these invoices were not remitted to the appropriate account in Enterprise Resource Planning System (ERP), nor were these work authorizations adjusted in the Professional Services Contract Management System (PS-CAMS), reducing the available balance.

Discrepancies in the documentation or spreadsheets used to verify signature approval authority for the CEI invoices resulted in unauthorized payments.

#### Criteria

Texas Administrative Code (TAC) § 20.487, Invoicing Standards states an agency may request payment from the comptroller, only after the state agency has received and accepted a complete accurate invoice and inspected and accepted delivery of the goods or services covered by the invoice. In addition, 48 CFR 31.205-33 for professional and consultant service costs states invoices or billings submitted by consultants should include sufficient details as to the time period and nature of the actual services provided.

The *PEPS Contract Management for the Project Manager* procedures state that PEPS Contract Administrator and the District/Division share the responsibility of processing invoices and TxDOT's policy is to process invoices in a timely manner after verifying accuracy and acceptability of the invoice. It also states the PM will review and approve the invoices submitted and must verify that the appropriate documentation required for each payment type is submitted with each invoice.

The PEPS Invoice Center Procedures outline the data entry requirements for the PEPS Invoice Tracker, PS-CAMS, and ERP when processing invoices. This includes entering various invoice data (i.e., invoice date, date invoice received, date provided to the District Project Manager, and date sent to Financial Management Division), invoice amounts, contract and work authorization numbers, as well as accounting function codes for processing the payment.

Through the agency-wide Delegations of Authority Document, TxDOT's Executive Director has delegated signature and approval authority for certain items to division directors (DD) and



district engineers (DE). Of those delegated items, some are eligible for redelegation by the DD or DE. These redelegations are identified in a redelegation memo that is signed by the DD or DE and maintained by the Contract Services Division (CSD).

### Cause

Review of CEI invoices is shared between PEPS and districts and clarification of each function and review responsibilities were not clearly defined. Review of the invoices varied between districts and area offices as there were no documented procedures or guidance for review and approval. The *CEI Contracts: Administration Guidebook* does not cover activities like invoice review. PEPS did have standard operating procedures that require a 100 percent review of the first invoice of a work authorization, and 30 percent for all subsequent invoices, however, the 30 percent review varies by contract specialist and district staff (PM) was not always aware of what had been reviewed. In addition, substantiation for this review was hard to determine. As a result, the district review by the PM may overlap with the same review elements that PEPS would complete (i.e., validation of labor rates to the work authorization).

The invoice review process requires PEPS Contract Specialists to manually enter the invoice information into three systems and there is no validation process between the systems to ensure the accuracy of the data entered. CEI consultants resubmitted invoices for errors or missing information that was self-identified, and these invoices were assigned to different contract specialists resulting in the duplicate invoices being processed by different PEPS Contract Specialists.

### Evidence

#### Invoice Exceptions

Review of 275 paid invoices totaling \$27.3 million for 41 CEI contracts to the five CEI consultants with the highest dollar spend on invoices paid between August 1, 2018 and March 18, 2019, identified the following:

- 35 of 275 (13%) invoices reviewed did not have the full documentation to support the labor and/or mileage charged totaling \$126,955:
  - 19 invoices did not include the sub-provider staff names for labor hours and mileage billed totaling \$69,464.
  - One invoice was approved for a sub-provider that the detail for labor, rates, and other direct expenses (ODE) were not legible totaling \$49,238.
  - One invoice did not include name or title for the prime contractor labor totaling \$2,068.
  - Four invoices had mileage claimed that 1) was not supported via a staff name included on the invoice, 2) staff had no labor charges for the corresponding billing period or 3) was not in accordance with the work authorization totaling \$698.
  - 10 invoices with travel expenses for construction trucks and hotels for two sub-providers were not allowed by the work authorization totaling \$5,486.
- 6 of 275 (2%) invoices included sub-provider services that were outside of the billing service dates for a total \$13,780.



### Signature Authority

PEPS district signature authority spreadsheet was verified against the Delegation of Signature Authority filed with Contract Services Division for 16 districts and authorized approval was evaluated for 47 invoices judgmentally sampled totaling \$5 million. The following was identified:

- 22 of 47 (47%) invoices for \$2.7 million were approved by district staff that did not match the Delegation of Signature Authority.
  - 21 invoices from three districts did not match, resulting in two invoices totaling \$168,439 that included charges not allowed by the work authorization.
  - One invoice was approved by a district staff who was not listed on either the PEPS signature authority spreadsheet or Delegation of Signature Authority as an authorized approver.
- 12 of 47 (26%) invoices for \$949,437 did not have the corresponding CEI contracts listed in the PEPS signature authority spreadsheet used by contract specialist to validate signature approval authority prior to payment.

### Data Accuracy

CEI invoice data was analyzed between the PEPS Invoice Tracker, PS-CAMS, and the Enterprise Resource Planning (ERP) system for transactions between August 1, 2018 and March 18, 2019. The following was identified:

- 92 of 1,226 (8%) PEPS Invoice Tracker transactions did not match PS-CAMS
  - 47 invoices had incorrect approval dates in PS-CAMS
  - 33 invoices did not match due to rounding
  - 12 invoices had an error or adjustment in the amount entered either in PS-CAMS or the invoice tracker
- 41 of 1,153 (4%) ERP transactions did not match PS-CAMS
  - 21 invoices had incorrect approval dates in PS-CAMS
  - 11 invoices did not match due to rounding
  - 9 invoices did not match due to different dollar amounts

### Duplicate Payments

All CEI invoice transactions in ERP and PS-CAMS from September 1, 2016 to March 18, 2019 were analyzed for duplicate dollar amounts. The following was identified:

- Two duplicate payments were identified in ERP and PS-CAMS reducing work authorizations by \$171,175.
  - One duplicate payment was from a resubmittal of an existing invoice and the duplicate invoices were processed by two different PEPS Contract Specialists and reviewed/approved by two different district staff.
  - One duplicate payment was from a resubmitted invoice that had an error in the service dates and invoice number. The duplicate payment was identified by the consultant and repaid in the same month (January 2019).

**Management Action Plan (MAP):**

**MAP Owner:** Tira Dobrozensky, Professional Engineering Procurement Services (PEPS)  
Invoice Center Manager, PEPS Division

**MAP 1.1: Invoice Exceptions**

- Revise existing procedure - PEPS to revise existing procedures to provide clear review responsibilities between parties. This includes revisiting the performance metrics.
- New guidance to district Project Managers - PEPS to develop new guidance to provide districts with a checklist for processing invoices. A link to this new guidance will be included in the CEI Contracts: Administration Guidebook
- Training - PEPS to develop training course for district project managers in processing invoices. PEPS to invite project managers to workshop training.
- Communication to parties - PEPS to send out communication to districts on new procedures and training.
- PEPS is processing refunds from the consultants for the charges that were not allowable based on the work authorizations.

**MAP 1.2: Signature Authority**

- PEPS to develop a form for districts to provide information on signature authority. PEPS to create a log for tracking appropriate signature authority. PEPS to review log against the Delegation of Authority.
- PEPS to setup a site within Crossroads for this log.

**MAP 1.3:**

- Revise Invoice Template - PEPS will update Invoice Template to address rounding issues found in the formulas.
- Update data in PS-CAMS/Invoice Tracker/PeopleSoft and PEPS to reconcile any discrepancies within these systems.
- Revise existing training - PEPS will update existing training to ensure process control changes are addressed.

**MAP 1.4:**

- Follow-up review - PEPS will perform a quarterly review by running a data query from PS-CAMS, Invoice Tracker and PeopleSoft. This includes resolving any rounding issues, input errors and duplicate payments.

**Completion Date:** March 15, 2020

**MAP Owner:** Lucio Vasquez, Deputy Director, Professional Engineering Procurement Services (PEPS) Division

**MAP 1.5:**

- The PEPS Division will investigate existing department applications as an integration solution to eliminate manual data entry, automate workflow and improve on the consultant contract invoicing processes. In addition, PEPS will explore new applications that may involve procuring, developing and implementing to further streamline consultant contract invoicing process. PEPS will coordinate with the Finance Management Division and Information Management Division as needed.

**Completion Date:** September 15, 2020

## Summary Results Based on Enterprise Risk Management Framework

Audit Results Dashboard				
Construction Engineering & Inspection (CEI) Invoicing				
Business Objectives (Reporting, Operational, Compliance)		Scope Areas Evaluated		
		O, C	R, O, C	
ERM Component	Control Activities	Invoice Review and Approval	Reporting and Data Integrity	
Control Environment	Organizational Tone			
	Business Objective/Goal-Setting			
	Resource Capacity			
	Forecasting/Budget			
	Training and Development			
Risk Assessment	Risk Identification/Planning			
	Risk Assessment/Impact Analysis			
	Risk Response/Cost-Benefit Analysis			
	Business Continuity			
Control Activities	Policies/Procedure Development & Maintenance	1		
	Approvals/Authorizations	1		
	Supporting Evidence/Records Retention			
	Segregation of Duties/System Access			
	Safeguarding Assets/Security			
Information & Communication	Information Classification			
	Information Input		1	
	Information Processing			
	Information Output			
	Internal and External Reporting			
Monitoring	Exception Reporting Review			
	Reconciliations		1	
	Root-Cause Analysis			
	Evaluations/Inspections			
	Management Action Plans			
Scope Area Assessment				
Rating Assessment Grid		Exemplary	Satisfactory	Needs Improvement
				Unsatisfactory

## Closing Comments

The results of this audit were discussed with the PEPS Division Director, Construction Division Director, and District Engineers on August 1, 2019. The Internal Audit Division appreciates the cooperation and assistance received from the PEPS, Construction Division, and districts tested during this audit.