

An Audit Report on

The Commission on State Emergency Communications' Disbursement of State Funds

March 2003

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The Commission on State Emergency Communications' Disbursement of State Funds

Overall Conclusion

The Commission on State Emergency Communications (Commission) did not comply with a General Appropriations Act requirement to inform the Comptroller of Public Accounts (Comptroller) to reduce the Commission's appropriations from the State's 9-1-1 Service Fees Account by \$5.3 million for the 2002-2003 biennium. This \$5.3 million was the amount of excess local funds that the regional planning commissions (RPC) reported they held in accounts outside the State Treasury and that could be used to reduce fiscal year 2003 appropriations.

In addition to not reporting the \$5.3 million in local funds, the Commission did not comply with a General Appropriations Act rider prohibiting it from making any payments to RPCs before the RPCs had spent all of their local funds. In fiscal year 2002 and the first quarter of fiscal year 2003, the Commission disbursed \$31.8 million to RPCs without ensuring that the RPCs spent their local funds before they spent state funds.

Background Information

The Commission is responsible for the statewide 9-1-1 communications program, which covers 225 Texas counties with a combined population of approximately 7.6 million. The Commission contracts with all 24 regional planning commissions (RPC) for the implementation and maintenance of 9-1-1 services.

In 1999, the 77th Legislature changed the manner in which (1) telecommunications service providers remit funds to the 9-1-1 Service Fees Account and (2) RPCs that administer the statewide 9-1-1 communications program receive funds from that account. Instead of remitting those funds directly to RPCs, telecommunications service providers began remitting them to the State Treasury. The Commission then began distributing those funds through contracts with RPCs.

Key Points

The Commission did not inform the Comptroller to reduce the Commission's appropriations by \$5.3 million for the 2002-2003 biennium.

When the Legislature changed the manner in which RPCs receive funds from the State's 9-1-1 Service Fees Account, RPCs had remaining balances of local funds that they received directly from telecommunications service providers. Because of that, the Legislature reduced fiscal year 2002 appropriations to the Commission by \$6.3 million (the estimated amount of local funds the Commission reported that RPCs still held). In addition, the Legislature required the Commission to report any local funds above that \$6.3 million amount that still existed as of August 31, 2001, so that the Comptroller could reduce appropriations accordingly.

In October 2001, the RPCs reported to the Commission that they held \$11.6 million in local funds (\$5.3 million more than the original \$6.3 million estimate). However, the Commission did not report the additional \$5.3 million to the Comptroller so that the Commission's appropriations could be reduced as the Legislature required.



In fiscal year 2002 and the first quarter of fiscal year 2003, the Commission disbursed \$31.8 million in state funds to RPCs without ensuring that the RPCs spent their local funds before they spent state funds.

The manner in which the Commission wrote its fiscal year 2002-2003 contracts with RPCs demonstrates its noncompliance with the Legislature's intention. Specifically, the budgets in the Commission's fiscal year 2002-2003 contracts with RPCs instructed the RPCs to spend a portion of local funds during fiscal year 2002 and a portion of local funds in fiscal year 2003. Therefore, the Commission allowed RPCs to spend state funds in 2002 and 2003 while they still had local funds available. This arrangement did not meet the Legislature's intention that RPCs spend all local funds before they spend state funds.

After the Commission established those contracts, it did not perform financial monitoring to ensure that the RPCs spent the portion of local funds that the contracts required them to spend before the Commission disbursed state funds to them. Although the Commission requires RPCs to submit annual certifications detailing their local fund balances, it does not review the amounts in those certifications for accuracy. It simply uses those certifications to make funding decisions for the next fiscal year.

Because the Commission disbursed funds inappropriately and did not monitor the RPCs' financial positions, we visited five RPCs and reviewed their financial records. We found that, because the Commission is not monitoring RPCs, the RPCs are not complying with a contract requirement that they segregate their financial records by source of funds. Each of the five RPCs we visited commingled state and local funds, which prevented these RPCs from ensuring that they spent local funds before they spent state funds.

We also reviewed the accuracy of the certified local fund balances that these five RPCs had submitted to the Commission. Four of these five RPCs reported inaccurate local fund balances to the Commission in fiscal years 2000 through 2002.

The Commission lacks key controls to protect the integrity of its financial data.

The Commission lacks adequate segregation of duties over its financial and information resources functions, which increases the risk that financial abuses could occur without detection. In addition, the integrity of the financial data that RPCs report through the Commission's Web site is at risk because the Commission lacks adequate security over passwords for the data entry function of this Web site. The data entry function also does not have automated edit checks to promptly detect potential data entry errors. RPCs report almost all financial information to the Commission through this Web site. The Commission then uses this information to make funding decisions and to disburse funds to the RPCs. Therefore, it is imperative that the information RPCs report through this Web site is adequately protected.

Summary of Management's Initial Response

The Commission disagrees with most of our findings. The Commission's full responses are included in the Detailed Results section of this report, and an overall summary of its responses appears in Appendix 2.

Summary of Management's Subsequent Response

After we completed our fieldwork and after the Commission provided its formal responses to our report, the Commission provided additional information regarding guidance it asserted it received about how to spend unexpended capital recovery funds. The additional information is presented in Appendix 3. Because the Commission provided the additional information after we completed our fieldwork and after the Commission provided its formal responses, we could not verify the additional information.

Summary of Information Technology Review

We conducted a limited review of the data entry function on the Commission's Web site because this is the mechanism the Commission uses to manage its financial interactions with the RPCs. RPCs report financial information (such as expenditures) through this Web site, and the Commission relies on this data when disbursing funds to the RPCs. As stated previously, we determined that weak controls in the data entry function on this Web site put the data at risk for unauthorized access and increase the risk that the data could be unreliable. Chapter 2 of this report provides further detail on the control weaknesses we identified.

Summary of Objective, Scope, and Methodology

Our audit objective was to determine whether the Commission disburses state funds to the RPCs only after RPCs spend all local funds.

The scope of this audit included a review of the Commission's disbursements to the RPCs and its key processes related to the State's 9-1-1 Service Fees Account for fiscal years 2000 through 2002 and the first quarter of fiscal year 2003.

Our methodology consisted of testing the Commission's procedures for ensuring that RPCs spend local funds before the Commission disburses state funds to them. This included reviewing the Commission's financial monitoring process. We also tested detailed financial records at 5 of the 24 RPCs with which the Commission contracts. In addition, we examined the accuracy and security of the data entry function on the Commission's Web site.

Table of Results and Recommendations
( denotes entry is related to information technology)


The Commission did not inform the Comptroller to reduce the Commission's appropriations by \$5.3 million for the 2002-2003 biennium. (Page 1)

The Commission should comply with the General Appropriation Act requirement to notify the Comptroller to reduce its appropriations by the \$5.3 million in excess local balances for the 2002-2003 biennium.

The Commission disbursed \$31.8 million in state funds to RPCs without ensuring that the RPCs spent their local funds before they spent state funds. (Page 4)

The Commission should comply with the General Appropriations Act requirement to ensure that RPCs spend all local funds before it disburses state funds to the RPCs by:

- Regularly monitoring RPCs to ensure that they spend all local funds before they spend state funds.
- Modifying existing performance monitoring procedures to include coverage of RPCs' financial procedures. For example, the Commission could implement procedures to validate the allowability of RPC expenditures.
- Independently verifying the certified local fund balances that RPCs submit and adjusting the amount of funds it disburses to RPCs accordingly.
- Disbursing state funds to RPCs only after it independently verifies RPCs' certification of local fund balances.
- Ensuring that RPCs comply with contractual requirements, especially those requirements for accounting for state and local funds.

 The Commission lacks key controls to protect the integrity of its financial information. (Page 9)

The Commission should:

- Separate the chief financial officer position from the network and security administrator position and assign different individuals to perform these functions.
- Encrypt the data the RPCs enter through its Web site.
- Permit only the RPCs, and not the Commission staff, to change the passwords RPCs use to access the Web site.
- Maintain the RPCs' passwords in an encrypted table that Commission staff are not able to view.
- Add automated edit and reasonableness checks to the data entry function on its Web site to help ensure the accuracy of financial information that RPCs submit. The Commission should supplement the automated checks with regular manual review of this data.
- Maintain an up-to-date system access list for the data entry function on its Web site and allow access only to those individuals whose job responsibilities require them to have this access.

Recent SAO Work		
Number	Product Name	Release Date
01-005	An Audit Report on the Commission on State Emergency Communications' Implementation of Phase 1 of Wireless 9-1-1 Improvements	October 2000

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Detailed Results

Chapter 1

The Commission Did Not Comply with the General Appropriations Act

The Commission on State Emergency Communications (Commission) has not complied with key General Appropriations Act requirements to:

- Notify the Comptroller of Public Accounts (Comptroller) to reduce the Commission's state appropriations by \$5.3 million for the 2002–2003 biennium.
- Ensure that regional planning commissions (RPC) spend all local funds they hold outside the State Treasury before they spend state funds.

Chapter 1-A

The Commission Did Not Inform the Comptroller to Reduce the Commission's Appropriations by \$5.3 Million for the 2002-2003 Biennium

The Commission did not comply with a General Appropriations Act requirement to inform the Comptroller to reduce the Commission's appropriations from the

State's 9-1-1 Service Fees Account by \$5.3 million for the 2002–2003 biennium. This \$5.3 million was the amount of excess local funds that the RPCs reported they held in accounts outside the State Treasury and that could be used to reduce fiscal year 2003 appropriations.

Excerpts from Rider 1, Page I-31, the General Appropriations Act (77th Legislature)

It is the intent of the Legislature that before the Commission on State Emergency Communications makes a contract payment to a regional council of government from the 9-1-1 Services Fee Account for 9-1-1 service contracts, the Commission ensures that the regional council of government has spent all balances and interest earned from emergency service fees for landline and wireless telecommunication services billed prior to August 31, 1999, and held outside the State Treasury. ...

In addition, the Comptroller of Public Accounts shall reduce the amounts appropriated above from the 9-1-1 Services Fee Account by the amount of any available balances in emergency service fees on August 31, 2001, including wireless service fees, held by the regional councils of government outside the State Treasury that exceed \$6,302,713. The Commission on State Emergency Communications shall provide the Comptroller of Public Accounts with a report on local balances in emergency and wireless service fees, and funds reserved to replace 9-1-1 capital equipment for each regional council of government for fiscal years 2001 and 2002 within 60 days of the close of each fiscal year. The amount of local balances shall be determined using guidelines established by the State Auditor's Office.

In 1999, the 77th Legislature changed the manner in which (1) telecommunications service providers remit funds to the 9-1-1 Service Fees Account and (2) RPCs that administer the statewide 9-1-1 communications program receive funds from that account. Instead of remitting those funds directly to RPCs, telecommunications service providers began remitting them to the State Treasury. The Commission then began distributing those funds through contracts with RPCs.

When the Legislature changed the manner in which RPCs receive funds from the State's 9-1-1 Service Fees Account, RPCs held remaining balances of local funds that they had received directly from telecommunications service providers. Because of that, the Legislature reduced fiscal year 2002 appropriations to the Commission by \$6.3 million (the estimated amount of local funds the Commission reported that RPCs still held). In addition, the Legislature required the Commission to

report any local funds above that \$6.3 million amount that still existed as of August 31, 2001, so that the Comptroller could reduce the Commission's fiscal year 2002 appropriations accordingly.

In October 2001, the RPCs reported to the Commission that they held \$11.6 million in local funds (\$5.3 million more than the original \$6.3 million estimate). However, the Commission did not report the additional \$5.3 million to the Comptroller so that its appropriations could be reduced as the Legislature required.

Recommendation

The Commission should comply with the General Appropriation Act requirement to notify the Comptroller to reduce its appropriations by the \$5.3 million for the 2002–2003 biennium.

Management's Response

The Commission does not concur with the SAO findings and recommended action. Below is an explanation.

The Commission was guided in its action by the following language contained in the CSEC Appropriation Rider 1 in FY2002/2003 that stated "the Commission ensures that the regional council of governments has spent all balances and interest earned from emergency service fees for landline and wireless telecommunication services billed prior to August 31, 1999, and held outside the State Treasury." The Commission complied with this requirement. The SAO audit team considered the emergency service fee balances prior to August 31, 1999, and appropriated funds in FY2000/2001 in its methodology (as noted in the sidebar box shown above), which result in inaccurate financial conclusions regarding the Commission's contract management and actions.

The SAO reports that \$11.6 million of local funds were held by the RPCs. This amount is not correct based on the Rider 1 requirements stated above; only \$1.6 million remained at the end of FY2001 from the original FY2001 estimate of \$6.3 million. The SAO indicated that an additional \$5.3 million should have been reported as local balances. Those funds were appropriated to the CSEC during FY2000/2001.

The Commission, in response to an April 2001 Legislative request, estimated that by the end of FY2001 the regional planning commissions would hold locally an accumulated balance of \$6,302,713 in landline and wireless service fees received directly from telephone companies prior to August 31, 1999.

The \$6.3 million did not include funds held for replacement of 9-1-1 capital equipment, nor was it requested to be included in the estimate.

In the last sentence of the first paragraph of Rider 1, there is a reference to "unexpended balances in funds reserved to replace 9-1-1 capital equipment

remaining after acquisition of equipment scheduled for replacement during the 2002-03 biennium.” However, in the second paragraph of Rider 1 (which directs the actions to be taken by the Comptroller and the Commission) it does not instruct the Comptroller to include “unexpended capital replacement funds” in its reduction of the appropriation, nor does it require the Commission to report the “unexpended balances” to the Comptroller. With no requirement to report those funds, nor any requirement to include them in the calculation of reductions, the Commission would assert that those funds are not included in the formula or methodology. Again, those funds were appropriated during FY2000/2001 and were not funds collected prior to August 31, 1999.

Paragraph two of Rider 1 states “In addition, the Comptroller of Public Accounts shall reduce the amounts appropriated above from the 9-1-1 Service Fees Account by the amount of any available balances in emergency service fees on August 31, 2001, including wireless service fees, held by the regional planning councils of governments outside the State Treasury that exceed \$6,302,713.” The rider specifically refers to “service fees” and “wireless service fees” and does not make any direct or implied reference to “local funds” or “unexpended capital replacement funds.” Again, note the \$6.3 million dollar amount, which is totally based on landline and wireless service fees, is used as the threshold for the calculation.

SAO states that an amount of the \$11.6 million in local funds was reported by the RPCs. Of that amount, \$1.6 million of the original \$6.3 million estimate remained in wireless service fee accounts and was reported to the Comptroller. The second sentence in paragraph two of Rider 1 states “The Commission on State Emergency Communications shall provide the Comptroller of Public Accounts with a report on local balances in emergency and wireless service fees, and funds reserved to replace 9-1-1 capital equipment for each regional council of governments for fiscal years 2001 and 2002 within 60 days of the close of each fiscal year.” The term “local balance in emergency and wireless service fees” refers to the fees received directly by the regional planning commissions prior to August 31, 1999, as noted by the SAO. The Commission reported to the Comptroller the amounts of “wireless service fees” and the amounts of “funds reserved to replace 9-1-1 capital equipment for each regional council of governments” and thus contends it has complied with Rider 1.

Again, all 9-1-1 funds were disbursed for the funding of 9-1-1 operations.

State Auditor’s Follow-Up Comments

Overall, the Commission’s responses to this issue demonstrate its narrow interpretation of Rider 1.

The Commission’s responses indicate that the Commission interprets Rider 1 to mean that appropriations should not be reduced by (1) the amount of unexpended balances in funds reserved to replace 9-1-1 capital equipment and (2) the amount of service fees RPCs held locally after August 31, 1999.

However, the text we made boldface in the complete copy of Rider 1 to the left indicates that the Legislature intended to reduce the Commission's appropriations by

the amount of unexpended balances in funds reserved to replace 9-1-1 capital equipment. In addition, the boldfaced text indicates that the Legislature intended to reduce appropriations by the amount of any available balances held outside of the State Treasury in emergency service fees on August 31, 2001, exceeding \$6.3 million. It is important to note that the Legislative Budget Board agrees with this interpretation of Rider 1.

Further, the Commission's own instructions to RPCs (as approved by the State Auditor's Office in 2001) specify that RPCs should

include unexpended balances in funds reserved to replace 9-1-1 capital equipment when they calculate their available local balances. The RPCs followed those instructions and reported they held \$11.6 million in available local balances as of August 31, 2001. This amount exceeded the original \$6.3 million estimate by \$5.3 million; therefore, the Commission should have informed the Comptroller to reduce its appropriations by \$5.3 million.

Chapter 1-B

The Commission Disbursed \$31.8 Million in State Funds to RPCs Without Ensuring that the RPCs Spent Their Local Funds Before They Spent State Funds

The Two Components Composing an RPC's Local Fund Balance

- Capital recovery funds - Service fees that the RPCs set aside to finance capital projects such as the purchase of hardware and software to operate a 9-1-1 system
- Local service fees - Fees for landline and wireless telecommunications services remitted to the RPCs

Highlighted Portion of Rider 1

Accordingly, amounts appropriated above have been reduced by \$6,302,713, to reflect local balances in wireless service fees that are available to fund 9-1-1 implementation, including wireless 9-1-1 service improvements, and any unexpended balances in funds reserved to replace 9-1-1 capital equipment remaining after acquisition of equipment scheduled for replacement during the 2002-03 biennium.

In addition, the Comptroller of Public Accounts shall reduce the amounts appropriated above from the 9-1-1 Services Fee Account by the amount of any available balances in emergency service fees on August 31, 2001, including wireless service fees, held by the regional councils of government outside the State Treasury that exceed \$6,302,713.

Rider 1, Page 1-31, the General Appropriations Act (77th Legislature)

1. **Appropriation, 9-1-1 Services Fee Account.** Included in amounts appropriated above to Strategy A.1.1, 9-1-1 Emergency Communications, is \$23,763,238 in fiscal year 2002 and \$29,809,065 in fiscal year 2003 from General Revenue-Dedicated Account No. 5050, 9-1-1 Services Fee for payments to regional councils of government for 9-1-1 service contracts. It is the intent of the Legislature that before the Commission on State Emergency Communications makes a contract payment to a regional council of government from the 9-1-1 Services Fee Account for 9-1-1 service contracts, the Commission ensures that the regional council of government has spent all balances and interest earned from emergency service fees for landline and wireless telecommunication services billed prior to August 31, 1999 and held outside the State Treasury. **Accordingly, amounts appropriated above have been reduced by \$6,302,713, to reflect local balances in wireless service fees that are available to fund 9-1-1 implementation, including wireless 9-1-1 service improvements, and any unexpended balances in funds reserved to replace 9-1-1 capital equipment remaining after acquisition of equipment scheduled for replacement during the 2002-03 biennium.**

In addition, the Comptroller of Public Accounts shall reduce the amounts appropriated above from the 9-1-1 Services Fee Account by the amount of any available balances in emergency service fees on August 31, 2001, including wireless service fees, held by the regional councils of government outside the State Treasury that exceed \$6,302,713. The Commission on State Emergency Communications shall provide the Comptroller of Public Accounts with a report on local balances in emergency and wireless service fees, and funds reserved to replace 9-1-1 capital equipment for each regional council of government for fiscal years 2001 and 2002 within 60 days of the close of each fiscal year. The amount of local balances shall be determined using guidelines established by the State Auditor's Office.

The manner in which the Commission wrote its fiscal year 2002–2003 contracts with RPCs demonstrates the Commission's noncompliance with the Legislature's intention. Specifically, the budgets in the Commission's fiscal year 2002–2003 contracts with RPCs instructed RPCs to spend a portion of local funds during fiscal year 2002 and a portion of local funds in fiscal year 2003. Therefore, the Commission allowed RPCs to spend \$31.8 million in state funds in fiscal year 2002 and the first quarter of fiscal year 2003 while they still had local funds available. This

arrangement did not meet the Legislature's intention that RPCs spend all local funds before they spend state funds (see text box for definitions of the two components of local fund balances).

After the Commission established those contracts, it still did not monitor to ensure that the RPCs spent the portion of local funds that the contracts required them to spend before the Commission disbursed state funds to them. Although the Commission requires RPCs to submit annual certifications detailing their local fund balances, it does not review the amounts in those certifications for accuracy. It simply uses those certifications to make funding decisions for the next fiscal year.

Because the Commission disbursed funds inappropriately and did not monitor the RPCs' financial positions, we visited five RPCs and reviewed their financial records. We found that, because the Commission is not monitoring RPCs, the RPCs are not complying with a contract requirement that they segregate their financial records by source of funds. Each of the five RPCs we visited commingled state and local funds, which prevented these RPCs from ensuring they spent local funds before they spent state funds. In addition, four of these five RPCs reported inaccurate local fund balances to the Commission in fiscal years 2000 through 2002.

Recommendations

The Commission should comply with the General Appropriations Act requirement to ensure that RPCs spend all local funds before it disburses state funds to the RPCs by:

- Regularly monitoring RPCs to ensure that they spend all local funds before they spend state funds.
- Modifying existing performance monitoring procedures to include coverage of RPCs' financial procedures. For example, the Commission could implement procedures to validate the allowability of RPCs' expenditures.
- Independently verifying the certified local fund balances that RPCs submit and adjusting the amount of funds it disburses to RPCs accordingly.
- Disbursing state funds to RPCs only after it independently verifies RPCs' certification of local fund balances.
- Ensuring that RPCs comply with contractual requirements, especially those requirements on accounting for state and local funds.

Management's Response

The Commission does not concur with the SAO audit team's findings and below is an explanation, along with a description of Commission action plans to strengthen the existing financial monitoring procedures.

In this second key finding, the Commission was guided in its action by additional language contained in the CSEC appropriation Rider 2 in the FY2002/2003 that also

stated "None of the funds appropriated above to Strategy A.1.1, 9-1-1 Emergency Communications may be used to replace current 9-1-1 capital equipment or fund a reserve for future replacement of 9-1-1 capital equipment."

The Commission, in compliance with the Rider 2 requirements, established contracts with the regional planning commissions that required the expenditure of all service fees and all capital replacement reserves by August 31, 2003. Additionally, in order to remain in full compliance with Rider 2, the Commission contracted with the RPCs to expend only designated capital replacement funds for replacing 9-1-1 equipment and no appropriated funds. In order to achieve this requirement, capital replacements scheduled in FY2002 were funded out of FY2002 designated capital replacement funds and the same for FY2003. This resulted in some capital replacement funds remaining to meet the requirement of FY2003. Again, to comply with the Rider 2 language, this practice was necessary to ensure that no appropriated funds contributed to the replacement of 9-1-1 capital equipment. After August 31, 2003, the only source of funding for the 9-1-1 Program will be state appropriated funds; there will no longer be any local funds to monitor.

The Commission's contracts with the RPCs do comply with the General Appropriations Act requirements. The Commission specifically amended the contract in consultation with the Attorney General's Office prior to being executed with each RPC. After the Commission established contracts with the RPCs, it did deduct the local fund amount certified by the RPCs from the RPCs quarterly reimbursement requests. The Commission does compare the RPC reported certification to other scheduled RPCs reported financial information provided to the Commission. While the Commission did not perform on-site financial auditing of each RPCs, it did validate all funding requests against the certified local fund balance data submitted to the Comptroller.

Guidelines for determining local fund balances, which were developed with SAO staff, require a signature of approval by the Executive Director of the regional planning commission. Neither Rider 1, which mandates the annual certification, nor the SAO staff, who were directly involved in the development of the certification guidelines, recommend or require the Commission to independently verify the amounts certified by the regional planning commissions. The Commission was not provided the resources to independently verify or monitor the regional planning commissions' financial procedures at the level recommended by the SAO audit team.

To meet the SAO recommended actions, the Commission is implementing two new procedures in order to ensure RPC compliance with contracts and to strengthen financial monitoring. The first item is a process to be established in FY2003 where all regional planning commissions will submit copies of invoices every month to the Commission to validate program expenditures for reimbursement. The procedures were recommended by the SAO Management Advisory Services Division and adopted by the Commission in January 2003. This process will address the first, second, fourth, and fifth recommended actions.

The second procedure is an alternative to the solution recommended by the SAO audit team but will achieve the same goal and minimize increased state funding for additional agency resources. The Commission is implementing a process where the

Single Audit Circular (part of the Uniform Grants Management Standards (UGMS)) will be utilized to inform the regional planning commissions' independent auditors of financial areas of concern in respect to the 9-1-1 Program to include a validation of the local fund balance certifications. This will leverage existing audits for the regional planning commissions without additional expenditure of state funds. This process will address the third and fifth recommended actions.

Brian Millington and Kelli Merriweather are responsible for implementing the above actions.

State Auditor's Follow-Up Comments

The Commission's actions did not ensure that RPCs spent local funds before they spent state funds. Specifically:

- Because the Commission did not monitor RPCs to ensure that they actually spent local funds before they spent state funds, the Commission had no information that would enable it to confirm that the RPCs actually did spend local funds first.
- The Commission disbursed funds to RPCs at the beginning of the fiscal year. Because RPCs still held local balances at that time, this demonstrates that the Commission did not ensure that RPCs spent local funds before they spent state funds. In addition, the fact that the Commission deducted local balances from the first quarterly advances that it disbursed to the RPCs indicates that the Commission was aware that RPCs still held local funds.
- The Commission's response specifies that the State Auditor's Office did not recommend, during the development of the certification guidelines, that the Commission independently verify the certified amounts. However, Rider 1 requires the Commission to ensure that RPCs spend local funds before the Commission makes a contract payment. In order to ensure that RPCs spent local funds first, the Commission must monitor RPCs. Any state agency that engages in contracting should implement procedures to ensure compliance with all contract provisions.

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The Commission Lacks Key Controls to Protect the Integrity of its Financial Information

The Commission lacks adequate segregation of duties over its financial and information resources functions. In addition, several weaknesses in controls over the data entry function on the Commission's Web site increase the risk that financial abuses could occur without detection. RPCs report almost all financial information (such as expenditure information) to the Commission through the data entry function on this Web site. The Commission then uses this information to make funding decisions and disburse funds to the RPCs. Therefore, it is imperative that the information RPCs report through this Web site is adequately protected.

The Commission does not adequately segregate the duties of its financial and information technology staff. The Commission's chief financial officer also serves as the Commission's network and security administrator. This increases the risk that fraud, embezzlement, or other financial abuses could occur without detection. We conducted additional testing because of this risk and did not find any evidence that such abuses had occurred.

The Commission does not encrypt the financial data that RPCs enter through its Web site or properly protect the passwords that RPCs use to access that Web site. The financial data that RPCs submit through the Commission's Web site are not encrypted. When unencrypted data are transmitted over the Internet, they are vulnerable to unauthorized disclosure or modification during transmission.

In addition, the Commission does not properly protect the passwords that RPCs use to access the data entry function on the Web site. Specifically:

- Multiple Commission staff can view and change the passwords that RPCs use to access the Web site. This increases the risk that these individuals could make erroneous or unauthorized changes to RPCs' data without detection.
- The Commission sends the RPCs their passwords for the Web site via unencrypted e-mail. Unauthorized individuals could potentially intercept these e-mails and then use the passwords to access the Web site and enter inaccurate data.

The data entry function on the Commission's Web site lacks automated edit checks or reasonableness checks to help ensure the accuracy of the financial data that RPCs enter. Without edit or reasonableness checks, RPCs could enter inaccurate financial data without detection. The Commission started to check hash totals in the third quarter of fiscal year 2002 to ensure that the data RPCs enter through the Web site are properly downloaded into the Commission's Access database. However, checking hash totals only ensures that all of the data RPCs enter are downloaded into the Commission's Access database; it does not help ensure that the data are correct.

Automated edit and reasonableness checks can accomplish a variety of things, such as inform individuals who are inputting data that they have entered a date in the past or an amount that exceeds their total contract amount.

The Commission does not properly maintain the list of users who are authorized to enter financial data through its Web site. The Commission adds names to the list of users who are authorized to enter financial data through the Web site, but it never removes the names of users who should no longer be authorized to enter this data. According to Commission management, only two employees need full access to the Web site. However, 10 of the Commission's 25 total full-time equivalent employees (FTE) have full access to the Web site. Failure to maintain the access list increases the risk that unauthorized users could enter data through the Web site.

Recommendations

The Commission should:

- Separate the chief financial officer position from the network and security administrator position and assign different individuals to perform these functions.
- Encrypt the data the RPCs enter through its Web site.
- Permit only the RPCs, and not the Commission staff, to change the passwords RPCs use to access the Web site.
- Maintain the RPCs' passwords in an encrypted table that Commission staff are not able to view.
- Add automated edit and reasonableness checks to the data entry function on its Web site to help ensure the accuracy of financial information that RPCs submit. The Commission should supplement the automated checks with regular manual reviews of this data.
- Maintain an up-to-date system access list for the data entry function on its Web site and allow access only to those individuals whose job responsibilities require them to have this access.

Management's Response

The Commission does concur with the recommended actions and will implement the following to meet these requirements.

Segregation of duties is an inherent problem for agencies such as the Commission, which has a total staff of 25. The Commission does have a cross training plan for two other employees to serve as back up to the Chief Financial Officer in the network administration area. Network administration and security tasks do not require a full time position at the agency. This Commission will explore steps that can be taken with available resources to reduce or mitigate the risks associated with the lack of separation of duties assigned to its Chief Financial Officer.

The web-based financial data reporting tool was designed in the fall of 2001 and implemented online in December 2001. The system was designed to be a low cost, simple, efficient electronic alternative to paper based reporting forms. The system also provides the capability to capture large amounts of detailed information by each county in the Commission program. The changes recommended in the report were not a part of the original specifications of the system. Two of the recommended changes could require major modifications to the system. As budget resources become available, the Commission will make the changes recommended to the web-based financial data entry function. If the costs to make the modifications are high, they may be spread out over several years, with the accessibility security changes being made first.

The Commission has adopted a policy where all users of the system must submit a new request for access to the system annually. Implementation of this policy, along with closer control of internal access, will reduce the risk of unauthorized access to the system.

Carey Spence-Powers and Brian Millington are responsible for implementing the above actions.

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Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

Our audit objective was to determine whether the Commission on State Emergency Communications (Commission) disburses funds to the regional planning commissions (RPC) only after the RPCs spend all local funds.

Scope

The scope of this audit included a review of the Commission's disbursement funds to the RPCs and the Commission's key processes related to the 9-1-1 Service Fees Account for fiscal years 2000 through 2002 and the first quarter of fiscal year 2003.

Methodology

The methodology used on this audit consisted of obtaining and reviewing procedures and data, conducting random sample tests, and analyzing and evaluating data and test results.

Information collected and reviewed included:

- Interviews of Commission management and staff.
- Interviews of RPC staff and management at the five RPCs selected for testing.
- Commission policies and procedures.
- Applicable state and federal statutes and guidelines.

Procedures, tests, and analyses performed included:

- Review of controls over the data entry function on the Commission's Web site.
- Tests of randomly selected expenditure transactions at the five RPCs selected for testing.
- Review and testing of the Commission's policies and procedures for:
 - ♦ Ensuring that RPCs spend local funds before the Commission distributes state funds to them.
 - ♦ Monitoring of RPCs' financial positions.
 - ♦ Managing and protecting the data RPCs enter through the Commission's Web site.

Criteria included:

- The General Appropriations Act (77th Legislature).
- *Information Security Policies Made Easy*, Charles Cresson Wood, October 1999.

Other Information

We conducted fieldwork from September 2002 through January 2003. This audit was conducted in accordance with generally accepted government auditing standards. The following members of the State Auditor's staff performed the audit work:

- Nicole Merridith-Marrero, MBA (Project Manager)
- Stacey Williams (Assistant Project Manager)
- Holly Hergarten
- Courtney Harrison
- Jenay Oliphant
- Serra Tamur, MPA, CISA
- Rebecca Tatarski
- J. Scott Killingsworth, CIA (Quality Control Reviewer)
- Nick Villalpando, MPA, CPA (Audit Manager)
- Frank Vito, CPA (Audit Director)

Summary of Management's Initial Response



**Commission on
State Emergency
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February 28, 2003

Ms. Nicole Merridith-Marrero
Project Manager
State Auditor's Office
Robert E. Johnson Building
1501 N. Congress Avenue
Austin, Texas 78701

Dear Ms. Merridith-Marrero:

Enclosed is the Commission on State Emergency Communications' (CSEC) management response to the audit conducted by the State Auditor's Office on CSEC's disbursement of state funds.

We appreciate the opportunity we had to discuss the draft report with you and your project team. Please contact me or Carey should you require additional information.

Sincerely,


Paul Mallett
Executive Director

PM/b

Enclosures

cc: Mr. Nick Villalpando



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Summary of Management's Response

The response to the overall conclusion and key points is that the Commission on State Emergency Communications (CSEC) does not concur with the first key finding of the State Auditor's Office (SAO) audit team regarding the audit on disbursement of state funds. The Commission was guided in its action by the General Appropriation Act Riders for FY2002/2003. All local balances from landline or wireless service fees collected prior to August 31, 1999, were reported to the Comptroller in the total of \$1.6 million and were expended prior to state funds being released to Regional Planning Commissions (RPCs). The FY2002/2003 appropriation has been subsequently disbursed for the purpose of funding 9-1-1 operations. However, management generally agrees that the Commission could improve its financial monitoring and strengthen its internal controls. The Commission staff has worked actively with the SAO's Management Advisory Services to evaluate and improve all aspects of the agency's financial management system and with full implementation of the recommended changes, anticipates significant improvement in the financial management capability of the agency.

Management's Subsequent Response

Implementation of Rider 1

The Commission interprets the language of the General Appropriations Act Rider 1 differently from the SAO. The term "local balances" is used several times in the Rider. The SAO interprets "local balances" to include funds in wireline and wireless service fee accounts and excess capital recovery funds not scheduled for use in equipment acquisition. The Commission believes that inclusion of excess capital recovery funds in "local balances" is an incorrect interpretation.

In April 2001, during the last session, the Conference Committee proposed the FY02/03 CSEC appropriation and riders. The Commission was extremely concerned about how to fulfill its statutory obligation to implement and fund 9-1-1 services. As a result, the Commissioners became engaged in the process. There were numerous discussions on the matter of excess capital recovery funds and the process that would be used to meet the Rider 1 requirements.

As an outcome of direct conversations between House Appropriation Committee staff and Commission members, the Commissioners clearly understood that local capital recovery funds were not a part of "local balances" but were to be spent by the end of the biennium. Therefore, excess capital recovery funds were not included in calculating "local balances" for purposes of ensuring they were expended prior to FY02/03 appropriated funds or appropriation reduction.

The Commissioners directed the CSEC staff to construct the FY02/03 COG budgets in accordance with that interpretation. Those budgets were approved by the Commissioners and translated into contracts with the Councils of Government. All FY02/03 9-1-1 funding was allocated and expended on 9-1-1 services.

This process was discussed in several public Commission meetings and workshops prior to the beginning of the current biennium, and the LBB staff was kept informed that we were proceeding along this path.

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The Honorable Ron Wilson, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

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