

An Audit Report on

# Internal Controls and Financial Processes at the Structural Pest Control Board

November 2003

Report No. 04-012



# Internal Controls and Financial Processes at the Structural Pest Control Board

## Overall Conclusion

The Structural Pest Control Board (Board) does not always inspect licensed pest control businesses with the frequency required by the Texas Administrative Code. As a result, the Board lacks adequate assurance that these businesses comply with laws and regulations that protect the public's health and safety. In addition, the Board should strengthen certain controls over financial processes and information technology to improve the integrity of its operational and financial data. Automating manual processes could also improve the Board's efficiency.

### Mission of the Board

The Board's mission is to protect the health, safety, and welfare of the citizens of Texas and the environment by licensing, regulating, and setting standards and criteria for structural pest control.

The Board received \$2,685,030 in total appropriations for the 2002-2003 biennium. Its number of full-time equivalent positions was capped at 39.

We identified the following specific issues:

- The Board did not inspect almost 21 percent of eligible pest control businesses within the two-year period ending on June 26, 2003. This means that 586 pest control businesses are operating without having been inspected. The Texas Administrative Code requires the Board to inspect businesses that have been issued a structural pest control business license at least one time in any two-year period.
- In its Annual Financial Report (AFR) for fiscal year 2002, the Board did not report as accounts receivable an estimated \$30,500 in penalties it assessed but did not collect during the fiscal year. Based on this estimate, the Board understated its total assets on its fiscal year 2002 AFR by 12.5 percent. The Board should also improve certain controls to ensure accurate financial information.
- Strengthening application and access controls over information technology resources could help the Board ensure that financial and operational data is accurate and protected. In addition, the Board could increase the efficiency of some operational processes by automating functions that are currently performed manually.
- The Board has not changed the questions on its licensing examinations since 1999 (except for its wood preservation exam, which it updated in 2001). Repeat test takers may have an opportunity to memorize exam questions and pass exams without gaining the knowledge necessary to do their jobs safely.

## Summary of Information Technology Review

We reviewed selected general and application controls over the Board's network and its licensing and complaints databases. Our work focused on ensuring that the Board has accurate and reliable data to manage its operations. As mentioned above, we found that strengthening application and access controls over information technology resources could help the Board ensure that financial and operational data is accurate and protected. In



addition, we found that the Board could improve its efficiency by automating processes that it currently performs manually.

### ***Summary of Management's Responses and Auditor Follow-up Comment***

The Board generally agrees with our findings and recommendations. However, the Board disagrees with our finding that it does not consistently monitor inspectors to ensure that inspectors inspect businesses with the required frequency. The high number of shops that were not inspected in compliance with the Texas Administrative Code shows that the Board needs to improve its monitoring of the inspection function. Our work showed that the Board performs some monitoring; however, it does not communicate to inspectors specific businesses that need to be inspected, and it does not perform monitoring consistently or regularly.

The Board further contends that it did not inspect all businesses because of a reduction of inspection efforts that it instituted to comply with the 7 percent funding reduction mandated in fiscal year 2003. We found that while this may explain some of the uninspected businesses, it is not a reasonable explanation for all of them.

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## *Detailed Results*

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# Detailed Results

Chapter 1

## ***The Board Does Not Always Inspect Licensed Pest Control Businesses with the Frequency Required by the Texas Administrative Code***

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The Structural Pest Control Board (Board) does not always comply with a Texas Administrative Code requirement to inspect each licensed pest control business at least once in any two-year period (see text box for more details on this requirement). The Board did not inspect almost 21 percent of 2,837 eligible pest control businesses within the two-year period ending on June 26, 2003. This means that 586 pest control businesses are operating without having been inspected. Included in that total are 41 eligible pest control businesses that the Board has never inspected.

**Texas Administrative Code,  
Title 22, Section 595.10(a)**

Each licensed pest control business shall be inspected at least one time in any two-year period. Businesses showing a lack of compliance with Board law or rules may be inspected more frequently. The Executive Director may waive this requirement due to emergency. An emergency in this section is defined as a shortage of staff availability due to complaint investigations, personnel shortages, or budgetary constraints.

Out-of-state licensed pest control businesses account for 20 (48.8 percent) of the 41 businesses that were never inspected. (Out-of-state license holders have business offices outside of the state but still operate within the state. In total, out-of-state license holders make up 35 of the 2,837 eligible businesses and are located in the states surrounding Texas.) Because the majority of out-of-state businesses were not inspected, there is a risk that by locating out of

state, a business may avoid inspections and complying with laws and regulations regarding pest control.

The Board did not inspect all businesses with the required frequency because the Board's inspectors misinterpreted the Board's rule to mean that each business must be inspected once a biennium. This misinterpretation resulted from unclear communication of the requirement in the inspectors' manual, which requires inspectors to inspect approximately one-half of the businesses in their assigned areas every year, but it does not require them to inspect each business every two years.

The Board does not perform an analysis of businesses to identify businesses that have not been inspected. Furthermore, it does not monitor inspectors' activities on a consistent basis to ensure that inspectors inspect businesses with the required frequency. Performing these activities could increase the Board's compliance with the requirement to inspect businesses at least once in any two-year period.

In addition, we tested 37 complaint investigations for compliance with the Board's policies and procedures. We found that in eight (22 percent) of the complaint investigations tested, the Board did not document that the Board's Legal Division had reviewed and concurred with the resolutions of the investigations. Proper documentation of legal review is a part of ensuring that complaints are appropriately resolved.

## Recommendations

The Board should:

- Revise policies and procedures in its investigators' manual to clarify the requirement that all businesses that are issued a pest control business license must undergo an inspection at least once in any two-year period.
- Train and supervise field inspectors to ensure that all inspectors understand the requirement.
- Adopt policies and procedures to ensure that all out-of-state license holders undergo an inspection at least once in any two-year period.
- Perform an analysis of businesses to identify businesses that have not been inspected.
- Monitor inspectors' activities on a consistent basis to ensure that inspectors inspect businesses with the required frequency.
- Ensure that legal reviews of all complaints occur and are documented.

## Management's Response

*We concur with the recommendations. The Board inspected nearly 80% of the eligible businesses within the two-year period. We acknowledge that 20% were not done in a timely manner because of a misunderstanding between the terms "two-years" and "biennium". The Board has informed the field staff that it must inspect businesses at least once every two-years, not on a biennium basis. The same applies for out-of-state business license holders. Also, the Structural Pest Control-Act. Occ. Code Chpt. 1951-207 – Inspections of License Holders provides that the Executive Director may waive the inspection requirement on a case-by-case basis if an emergency arises or to accommodate complaint investigation schedules. This section of the law was utilized in FY 03 after the Legislature mandated a 7% funding reduction at mid-year.*

*As of 9/1/2002 the Legal Division implemented a written procedure for initialing all complaint files to indicate review and concurrence. Also, the Field Operations Manager and/or Field Operations Coordinator review all complaints submitted.*

*The Board Field Operations Manager has monitored investigators' inspections on a routine basis. So while management agrees with the recommendations, management disagrees with the assertions made in paragraph four. Documents and verbal explanations were provided to the State Auditors Office.*

### **Person Responsible for implementing corrective action:**

*Field Operations Manager  
Program Manager*

### **Implementation Date:**

*September 1, 2003*

### **Auditor's Follow-up Comment**

The high number of businesses that were not inspected in compliance with the Texas Administrative Code, as well as the fact that the inspectors performed their inspections according to a misinterpretation of the Texas Administrative Code, shows that management's monitoring of the inspection function needs to improve. The information the Board submitted to us shows that there is communication between inspectors and management and that some monitoring of inspections occurs. However, the information does not show that the Board identifies and communicates to inspectors specific businesses that need to be inspected. The information also does not show that the Board monitors investigators' inspections regularly or consistently.

The Board further contends that it did not inspect all businesses because of a reduction of inspection efforts that it instituted to comply with the mandated 7 percent funding reduction made in fiscal year 2003. We discussed this finding with the Board beginning in August 2003 and provided it a draft finding on October 6, 2003. The Board did not inform us of the impact from the funding reduction until October 15, 2003, although it had opportunities to do so prior to that date. In addition, we found that as of the end of fiscal year 2002 (and prior to the funding reduction), the Board had inspected only 44.6 percent of the businesses it was required to inspect. If the Board continued completing inspections at this rate through the rest of the biennium, it would not succeed in inspecting all businesses within a two-year period. This shows that reductions in inspection efforts to meet the mandated 7 percent reductions may explain why some businesses were not inspected, but it is not a reasonable explanation for all of the uninspected businesses.

## ***The Board Did Not Report Accurate Accounts Receivable Information and Should Improve Certain Financial Controls***

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The Board did not report as accounts receivable on its fiscal year 2002 Annual Financial Report (AFR) an estimated \$30,500 in penalties it assessed but did not collect during fiscal year 2002. Based on this estimate, the Board understated its total assets on its fiscal year 2002 AFR by 12.5 percent. The Board should improve certain controls to help ensure the accuracy of its financial information.

### Chapter 2-A

#### **The Board Understated Its Fiscal Year 2002 Accounts Receivable by \$30,500**

In its AFR for fiscal year 2002, the Board did not report as accounts receivable an estimated \$30,500 in penalties it assessed but did not collect during the fiscal year. Accounts receivable should be identified as revenues received within 60 days after the end of the fiscal year if the revenues are related to that fiscal year. As a result, we estimate the Board understated its total assets on its fiscal year 2002 AFR by 12.5 percent.

In addition, the Board's accounting system lacks the related accounts needed to identify bad debts and make allowances for doubtful accounts. The Board also does not have criteria for defining uncollectible penalties and has not established procedures, such as those for aging unpaid penalties, to determine which penalties it is unlikely to collect. We also noted that the Board deposits administrative penalties to an incorrect object code in the Uniform Statewide Accounting System (USAS).

#### **Recommendations**

The Board should:

- Ensure that its reports and records present a complete and accurate picture of its financial activities and position.
- Establish accounts needed to identify bad debts and make allowances for doubtful accounts.
- Define uncollectible penalties and establish procedures to age accounts receivable to determine which accounts receivable are not likely to be collected.
- Deposit administrative penalties to the correct object code in USAS.

#### **Management's Response**

*We concur with the recommendations. The Board has information regarding uncollected penalties but was unaware that it needed to be reported as part of the annual financial report (AFR). We will include this information in future AFR's. The Board will develop comprehensive written accounting policies and procedures with controls that will ensure accurate reporting of uncollected penalties.*



*The Board is depositing administrative penalties to the correct object code in USAS as of September 2003.*

***Person Responsible for implementing corrective action:***

*Program Manager*

***Implementation Date:***

*September 1, 2003*

Chapter 2-B

## **The Board Should Improve Certain Controls to Help Ensure the Accuracy of Its Financial Information**

The Board has several weaknesses in the controls governing financial transactions that impair its ability to ensure the accuracy of financial information. For example, we identified the following two ways in which the Board does not properly allocate expenditures among its strategies:

- The Board pays the salaries of employees who work in both the Public Awareness Efforts strategy and Regulatory Activities strategy solely from funds in the Regulatory Activities strategy.
- The Board lacks a formal documented methodology for allocating indirect costs among strategies. Its current method for cost allocation does not accurately depict the relationship between administrative costs and the benefits each strategy receives from those administrative services.

In addition, the following issues increase the risk that financial errors or irregularities could occur without detection:

- A single employee is responsible both for opening mail containing checks and for maintaining an electronic log of checks received in the mail. The check log is not protected by a password, and dates recorded in the log are not always correct. Five (11 percent) of 45 entries we tested from the check log contained incorrect dates. Because of the risk to revenue deposits, we compared the number of licenses issued with the revenues deposited and found no indication of improper activity.
- The Board does not follow consistent procedures for processing financial transactions and does not have comprehensive accounting policies and procedures. While all expenditures we tested appeared reasonable, not following consistent procedures increases the risk of errors and inaccuracies. Specifically, we noted that:
  - ♦ Fifteen (36 percent) of the 42 purchase orders we tested had name stamps instead of original approver signatures. The Board does not have a policy regarding dollar thresholds at which a name stamp is allowable or at which an original signature should be required. The expenditures approved with name stamps ranged from \$9 to \$2,000.

- ♦ Seven (17 percent) of the 42 expenditures we tested substituted other documents such as e-mails, internal memos, or invoices for the purchase orders.
- ♦ The Board's manual log of journal vouchers is incomplete and contains errors; therefore, the Board's records cannot be reconciled to USAS.
- The Board cannot readily determine whether an individual has paid a license fee. This is because the Board's accounting database does not contain a field to identify the check numbers associated with a particular license renewal.

## Recommendations

The Board should:

- Determine the proportion of salaries to be paid from its Public Awareness Efforts and Regulatory Activities strategies and allocate expenditures properly between those strategies.
- Review and formally document its methodology for allocating indirect costs among strategies and ensure that it fairly distributes indirect costs among those strategies.
- Properly segregate duties with respect to opening mail and recording checks received on the check log.
- Protect its check log with a password and implement a review process to ensure that dates on the check log are recorded correctly.
- Develop and implement comprehensive written accounting policies and procedures.
- Implement a process to ensure that the Board's log of journal vouchers is correct.
- Include a field for the check number in the accounting database to allow easier determination of whether an individual has paid a license fee.

## Management's Response

*We concur with the recommendations. The Board will strengthen its financial controls regarding proportion of salaries. The Board took initial steps in FY 03 and will continue to do so. With regard to indirect cost allocation the Board will work on fairly distributing those cost in FY 04 and will formally document the methodology.*

*In order to reduce the risk when opening mail, we will have another person monitor the mail opening on a routine basis. To date there is no evidence that the past procedures resulted in theft.*

*The Board has password protected the check log file and has revised its process to ensure that the dates entered into the check log are correct.*

*The Board will develop and implement comprehensive written accounting policies and procedures that are consistent with the law.*

*The Board will add a field to its accounting database to include a check number in order to be able to determine whether or not an individual has paid a license fee.*

***Person Responsible for implementing corrective action:***

*Program Manager*

***Implementation Date:***

*February 1, 2004*

## ***The Board Should Strengthen Information Technology Controls to Help Ensure that Data Is Accurate and Protected***

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Strengthening application and access controls over information technology resources could help the Board ensure that financial and operational data is accurate and protected. In addition, the Board could increase the efficiency of some of its operational processes by automating functions that are currently performed manually.

### Chapter 3-A

#### **The Board Is Not Adequately Protecting Information Entered in Board Databases**

The Board does not have adequate controls to ensure that it protects important information on licensees maintained in its database systems. For example:

- Board employees who are allowed to update information in the complaints database can also delete complaint investigation records from that database. After a user has deleted a complaint record, future users are unable to retrieve the information on that complaint. In our test of complaint investigations, we found two instances in which Board employees had deleted complaint records from the database.

The Board's Legal Division has a process for voiding records that would allow the Board to keep a record of the voided complaint. However, that process is not used. Procedures that allow users to delete complaint records without documenting the reason for the deletion increase the risk that a user may inappropriately delete a record without detection by management.

- Eight Board employees are able to access, update, and delete data in both the complaints and licensing databases. Having such access to both databases could allow an employee to delete information that could cause the Licensing Division to renew a license that it should not renew. In addition, the licensing database does not retain a history or record of changes to license records. Therefore, if a user deletes Legal Division comments in the licensing database, other users cannot subsequently recover the deleted comments.
- In five (14 percent) of the complaint investigations tested, we did not find written documentation supporting the date that the Board's complaints database specified the complaint was received. The Board uses complaint receipt dates to calculate two performance measures: Percent of Complaints Resolved within Six Months and Average Time for Complaint Resolution. In a performance measures audit, these errors would cause a designation of certified with qualification.<sup>1</sup>

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<sup>1</sup> "Certified with qualification" means that reported performance is within +/- 5 percent of the target but that either (1) the controls over data collection and reporting are not adequate to ensure continued accuracy or (2) controls are strong, but source documentation is unavailable for testing.

- The complaints, licensing, and accounting databases contain few edit checks to prevent these databases from accepting invalid data. For example, the licensing database will accept a date that has not yet occurred as a last inspection date.

## Recommendations

The Board should:

- Remove the ability of users to delete records from the complaints database and comply with Legal Division policies and procedures that allow users to mark records as voided while retaining the records.
- Review the need for employees to have the ability to update both the licensing and complaints databases and, if appropriate, eliminate unneeded access privileges.
- Develop the ability to retain a history of changes made to database records, thereby allowing management to recover information that has been deleted in error.
- Ensure that data in the complaints database is accurate and supported by documentation.
- Develop and implement edit checks that prevent users from entering invalid data into the Board's database systems.

## Management's Response

*We concur with the recommendations. The Board has contracted with a systems analyst to improve its information technology efficiencies.*

***Person Responsible for implementing corrective action:***

*Program Manager*

***Implementation Date:***

*December 1, 2003*

Chapter 3-B

## **The Board Does Not Consistently Follow Its Policies Regarding Access to Information Technology Resources**

The Board has a comprehensive security manual that establishes policies and procedures for managing the Board's investment in information technology. However, the Board does not always follow those policies and procedures, resulting in security risks to data and hardware. For example:

- Automation Resources personnel and the security coordinator are required to monitor access to the computer room and keep the room locked at all times. However, we observed employees leaving the computer room door unlocked, and

at times the door was left open while the room was unoccupied. Maintaining physical security of the computer room is paramount to ensuring that the Board's information technology is safeguarded.

- Although a policy requires users to change passwords at least every 90 days, an information technology employee has a password that never expires. Ensuring password confidentiality by requiring users to change their passwords periodically is a fundamental principle of a good security policy and decreases the risk that unauthorized users will obtain and use passwords to access sensitive information.

## Recommendations

The Board should:

- Comply with the requirements for physical security of the computer room.
- Require all users to follow the password requirements documented in its security manual.

## Management's Response

*We concur with the recommendations. The Board requires that the computer room be locked when not in use. Also, all users are required to follow the password requirements documented in its security manual.*

### ***Person Responsible for implementing corrective action:***

*Program Manager*

### ***Implementation Date:***

*October 15, 2003*

## Auditor's Follow-Up Comment

While the Board has a policy requiring that the door to the computer room should be locked at all times and that all staff should have passwords that expire every 90 days, our work showed that the Board is not consistently complying with these requirements. The Board needs to monitor compliance with these policies to ensure that all staff adhere to them.

Chapter 3-C

## **The Board Could Improve Efficiency and Ensure More Accurate Information by Better Using Its Information Technology**

The Board is not using the full potential of its database software and information technology to increase efficiency and help ensure the accuracy of its financial and

operational information. Board employees currently perform the following routine manual calculations using data from the Board's FoxPro revenue and licensing database:

- To calculate the monthly payment of the TexasOnline subscription fee, Board employees manually collect license renewal data that is recorded in FoxPro and enter it into Excel spreadsheets. The Board processed more than 9,000 license renewals from September 1, 2002, to June 26, 2003. This same function could be performed more quickly by creating an interface between FoxPro and Excel or performing the calculations in FoxPro.
- To create a deposit voucher for entry into USAS, employees manually calculate amounts for each type of professional license. FoxPro could be programmed to perform these same calculations.
- To prepare operating budget reports relating to revenues and expenditures, employees manually prepare financial information because there is no interface between the FoxPro revenue database and spreadsheets.

### **Recommendations**

The Board should consider reviewing the tasks its employees perform manually. By identifying tasks for which automation would generate the greatest increase in productivity for the least cost, the Board could reduce the possibility of human error and improve efficiency.

### **Management's Response**

*We concur with the recommendations. The Board has contracted with a systems analyst to improve its information technology efficiencies. In FY 02 and FY 03 the Board did review manual tasks performed by its employees. The reviews are continuous and routine. The reviews lead to several improvements that enabled the Board to better absorb the 12.5% cut in FY 04.*

#### ***Person Responsible for implementing corrective action:***

*Program Manager*

#### ***Implementation Date:***

*August 31, 2004*

## ***The Board Does Not Update Its Licensing Examinations in a Timely Manner***

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With one exception, the Board has not revised its licensing examinations since 1999. (The Board updated its wood preservation examination in 2001.) Because the questions on these examinations have remained unchanged for four years, there is an increased risk that individuals may learn what questions are on an exam before they take it. Individuals who fail an exam must take the exam again and pass it to receive their licenses. Repeat test takers may have an opportunity to memorize exam questions and pass exams without gaining the knowledge necessary to do their jobs safely. In addition, outdated exams may not reflect current information regarding the use of pest control chemicals.

In calendar year 2003, the Board scheduled exams on 22 dates in 13 different Texas cities. The Board offers examinations in these areas:

- Termite and wood-destroying insect control
- Pest control
- Lawn and ornamental
- Structural fumigation
- Commodity fumigation
- Weed control
- Wood preservation

### **Recommendations**

The Board should:

- Establish a regular schedule for revising its examinations.
- Revise its examinations when industry practices change significantly.

### **Management's Response**

*We concur with the recommendation that license examinations need to be updated. Draft revisions were started in FY 03 but have not been implemented to date. We will revise exams at least once every three years and more often when we move to computer-based testing.*

### ***Person Responsible for implementing corrective action:***

*Program Specialist*

### ***Implementation Date:***

*May 2004*



# Appendix

## Objective, Scope, and Methodology

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### Objective

Our objective was to determine whether the Structural Pest Control Board's (Board) processes and operations ensure that it is meeting statutory responsibilities, safeguarding resources, and complying with applicable laws and regulations. To accomplish that objective, we:

- Determined whether the Board's operational processes are effective and efficient.
- Determined whether the Board is complying with applicable laws and regulations.
- Determined whether the Board's financial processes ensure accurate, complete, and reliable financial information.

### Scope

Our audit covered licensing, enforcement, and financial processes from fiscal years 2000 to 2003. Testing of transactions focused on fiscal years 2002 and 2003 and included licenses, revenues, expenditures, and journal vouchers. We also tested compliance with laws and regulations.

### Methodology

The audit methodology consisted of collecting information and documentation, performing selected tests and other procedures, analyzing and evaluating the results of the tests, and conducting interviews with the Board's management and staff.

Information collected included the following:

- Interviews with Board staff
- Board financial and operational files
- Automated data from the Board's licensing and complaints databases

Procedures and tests conducted included the following:

- Tests of expenditures, revenues, and journal voucher transactions to ensure accuracy
- Financial analysis of the Board's fiscal year 2002 Annual Financial Report
- Testing of licensing and enforcement files for compliance with laws and regulations
- Review of controls over automated systems and tests of accuracy of the data

Criteria used included the following:

- Texas Occupations Code, Section 1951
- Title 22, Texas Administrative Code, Part 25
- General Appropriations Act (77th Legislature).
- Board policies and procedures
- Comptroller of Public Accounts, *Reporting Requirements and Technical Guidance for Annual Financial Reports for State Agencies and State Colleges and Universities*, June 2002

### **Other Information**

We conducted fieldwork from July 2003 through September 2003. This audit was conducted in accordance with generally accepted government auditing standards; there were no significant instances of noncompliance with these standards.

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

- Michael Dean, MPAff, CGAP, PMP (Project Manager)
- Beverly Bavousett, CPA (Assistant Project Manager)
- Selvadas Govind, MPA, CIA
- Walton Persons, CPA
- Pam Ross, CGAP
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Sandra Vice, MPAff (Audit Manager)
- Frank Vito, CPA (Audit Director)

Copies of this report have been distributed to the following:

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The Honorable David Dewhurst, Lieutenant Governor, Vice Chair  
The Honorable Teel Bivins, Senate Finance Committee  
The Honorable Bill Ratliff, Senate State Affairs Committee  
The Honorable Talmadge Heflin, House Appropriations Committee  
The Honorable Ron Wilson, House Ways and Means Committee

### **Office of the Governor**

The Honorable Rick Perry, Governor

### **Structural Pest Control Board**

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Mr. Elias Briseno, Board Member  
Mr. Charles Brown, Board Member  
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