

Key Points of Report

1998 Small Agency Management Control Audit

April 1998

Overall Conclusion

Fiscal year 1998 management control audits at six small agencies identified weaknesses in controls over human resources, financial management, policy management, management information systems, and licensing/enforcement.

Follow-up audits at six agencies showed that 63 percent of our previous recommendations had been implemented, 28 percent had been partially implemented, and 9 percent had not been implemented.

The 12 small agencies at which we conducted management control audits or follow-up reviews collectively received approximately \$66 million in appropriations and employed 1,173 full-time equivalent employees in fiscal year 1997.

Key Facts and Findings

- In our reviews of six regulatory agencies, three agencies (50 percent) had weaknesses in licensing, inspections, and enforcement. These agencies are the Board of Barber Examiners (page ?), the Texas Racing Commission (page ?), and the Texas Funeral Service Commission (page ?). In addition, the governing boards of the Board of Barber Examiners and the Texas Funeral Service Commission did not fully comply with applicable laws and policies.
- Our management control reviews show that five of six agencies need to strengthen controls over human resources (the Fair Labor Standards Act, employee selection procedures, performance appraisal systems, job descriptions, and training).
- Three of the agencies need to improve controls over financial management (cash receipts, travel vouchers, fixed assets, and purchasing).
- Three of the agencies need to strengthen controls over management information systems (disaster recovery planning, access to automated information systems, and management information).

Management control audits:

- Board of Barber Examiners
- Texas School for the Deaf
- Texas State Board of Medical Examiners
- Board of Nurse Examiners
- Texas Racing Commission
- State Securities Board

Follow-up audits:

- Animal Health Commission
- Texas Commission on the Arts
- Texas Commission for the Deaf and Hard of Hearing
- Texas Commission on Fire Protection
- Texas Funeral Service Commission
- Soil and Water Conservation Board

Contact

Carol Noble, CISA, CGFM, Audit Manager, (512) 479-4700



Office of the State Auditor

Lawrence F. Alwin, CPA

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Executive Summary

Fiscal year 1998 management control audits at 6 small agencies identified weaknesses in controls over human resources, financial management, policy management, management information systems, and licensing/enforcement. Appendix 2 (page ?) provides a summary of audit recommendations by agency, categorized by control areas and agency General Appropriations Act funding strategies.

What is a small agency?

For purposes of this audit, "small agencies" are agencies with low inherent risk, as defined by the State Auditor's Office (SAO). The SAO bases inherent risk primarily on the dollars flowing through the agency and its number of full-time equivalent employees. Most of the 119 "small agencies" have less than \$10 million in revenues and fewer than 300 employees.

The weaknesses noted in this year's audit are common to many of the small agencies previously audited. Factors that increase the risk of control weaknesses at small agencies include:

- Fewer staff members, which make it difficult to maintain proper separation of duties, adequate supervision, and proficiency in all management control areas
- The lack of an internal audit department to help management detect and assess risk

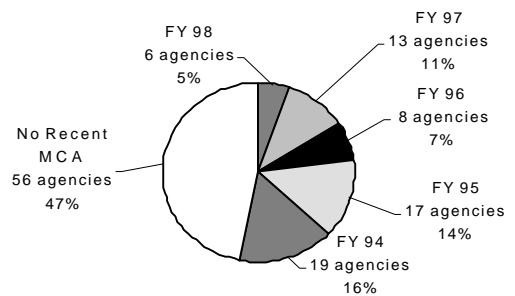
Our follow-up work at 6 agencies reviewed in previous small agency management control audits showed that 63 percent of our previous recommendations had been implemented, 28 percent had been partially implemented, and 9 percent had not been implemented. With

regard to recommendations not implemented, agencies' responses indicate that they plan to address them in the near future.

The 12 small agencies at which we conducted management control audits or follow-up reviews collectively received approximately \$66 million in appropriations and employed 1,173 full-time equivalent employees in fiscal year 1997. Appendix 4 (page ?) lists this information for individual agencies visited.

Small agency management control audits and related agency assistance have aided more than half of the small agencies in identifying and correcting control weaknesses.

Small Agency Management Control Audit (MCA) Coverage in the Last Four Fiscal Years

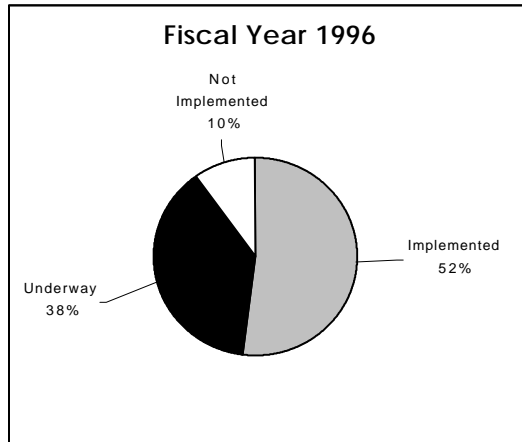


Source: Previous State Auditor Reports

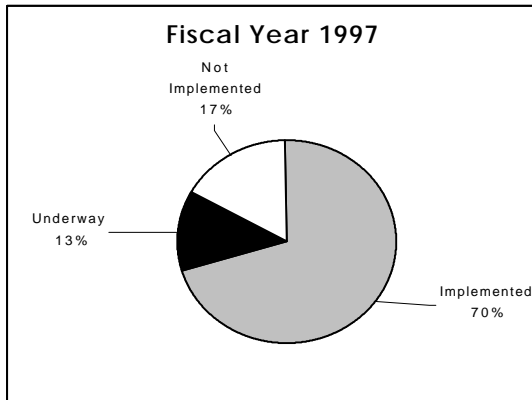
Follow-Up Reviews Show Most Recommendations Were Fully Or Partially Implemented

Follow-up reviews indicate that agencies have improved their accountability in most of the areas noted in the audits. The follow-up reviews at 6 small agencies in fiscal year 1998 showed that agencies continue to do well in implementing previous recommendations.

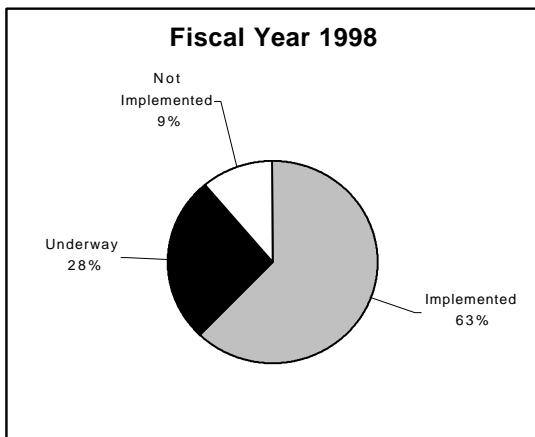
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Source: Previous State Auditor Reports



Source: Previous State Auditor Reports



Source: Previous State Auditor Reports

Improve Controls Over Regulatory Functions and Policy Management

In our reviews of six regulatory agencies, three agencies (50 percent) had weaknesses affecting licensing, inspections, and/or enforcement. These agencies are the Board of Barber Examiners (page 7), the Texas Racing Commission (page 33), and the Texas Funeral Service Commission (page ?). Regulatory agencies exist to protect the public welfare. It is important that they have good controls over licensing, inspections, and enforcement to ensure that only qualified applicants are licensed and that the agencies perform their statutory functions in an efficient and effective manner.

In addition, the governing boards of the Board of Barber Examiners and the Texas Funeral Service Commission did not fully comply with applicable laws and policies. Governing boards have an obligation to set a high standard by closely following policies and laws.

Improve Controls Over Human Resources, Financial Management, and Management Information Systems to Optimize Resources

- Improve Controls Over Human Resources

Our management control reviews show that five of six agencies need to strengthen controls over human resources.

Deficiencies noted include:

- Noncompliance with the Fair Labor Standards Act
- Inadequate documentation to support employee selection
- Inadequate performance appraisal systems and untimely performance appraisals

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- Inadequate job descriptions
- The lack of an overall training plan

Human resources are an important asset to state government. When considered as a whole, the six agencies audited spent 67 percent of their total expenditures on salaries and payroll-related costs. For the State to maximize its investment in human resources as well as its other expenditures, it must ensure that agencies hire the most qualified personnel, properly train and develop them, provide them timely and relevant performance feedback, and manage them in accordance with laws and regulations. Without good controls over human resources, agencies cannot ensure that their employees are efficiently and effectively achieving agency goals and objectives.

- **Strengthen Controls Over Financial Management**

Three of the agencies need to improve controls over financial management. Specific deficiencies noted include inadequate controls over:

- Cash receipts (lack of compliance with the three-day deposit rule, lack of separation of duties, inadequate safeguarding of cash)
- Travel vouchers (lack of approval signatures)
- Fixed assets (inadequate inventory controls, lack of reconciliations)
- Purchasing (lack of separation of duties)

Controls over financial management are essential for agencies to ensure that cash and other assets are collected/acquired, maintained/safeguarded, and

used/disbursed in a way that minimizes the risk of misuse, maximizes positive cash flow, and supports the agencies' operations and mission. Without strong financial controls over revenues, expenditures, assets, and liabilities, agencies are at risk for errors, fraud, and abuse to occur and not be detected in a timely manner.

- **Enhance Controls Over Management Information Systems**

Three of the agencies need to strengthen controls over management information systems. Areas for improvement include:

- Formalizing disaster recovery plans
- Limiting access to automated information systems
- Providing operational management information to Board members on a regular basis.

Controls over management information systems are critical as agencies increasingly rely on automated technology to streamline operations, improve services, and assist management in monitoring organizational performance. In order to protect the investment in technology, processes must be in place to protect both physical assets and data from unauthorized use or destruction. Without these controls, agencies cannot ensure that they can efficiently return to normal operations after a disaster or that information is reliable, accurate, and protected from unauthorized access.

Controls over management information systems also promote effective use of information in the timely, efficient delivery of state government services to

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the public. Useful, accurate, and timely information must be available to the people who need it and organized in a manner that supports the agency's mission, goals, and objectives. Decision makers must have timely and appropriate information in order to provide effective management and oversight.

Overall Conclusions for the Six Agencies Receiving a Management Control Audit

- **Board of Barber Examiners (Board)** - Significant control weaknesses in licensing, inspections, and investigations potentially limit the Board's ability to ensure that its mission is achieved. Particular problems noted include:

- Allowing candidates to take examination without photographic identification
- Lacking a risk assessment and policies and procedures for inspections
- Inconsistent treatment of potential licensees

In addition, the Board needs to strengthen controls over human resources, financial management, and policy management. (See page 7.)

- **Texas School for the Deaf (School)** - The School has established adequate management controls to ensure that it performs its statutory functions. However, the School needs to improve controls over human resources, fixed assets, and management information systems. (See page 17.)
- **Texas State Board of Medical Examiners (Board)** - The Board has established adequate management controls for licensing, management information

systems, and enforcement. However, weaknesses were noted in compliance with state and federal rules and regulations over human resource management and purchases from historically underutilized businesses (HUBs). (See page 25.)

- **Board of Nurse Examiners (Board)** - The Board has established adequate management controls for management information systems, licensing, enforcement, and human resources. However, the Board can improve controls over contracts and purchases from HUBs. (See page 31.)
- **Texas Racing Commission (Commission)** - At the Commission, control weaknesses potentially limit its ability to ensure that its mission is achieved:
 - The Commission needs to improve controls over licensing, enforcement, and inspections to ensure that only qualified applicants are licensed, that all enforcement rules and regulations are adhered to, and that all required inspections are performed as directed by policies and procedures.
 - The Commission needs to strengthen controls over financial and human resource management. (See page 33.)
- **State Securities Board (Board)** - The Board has established adequate management control systems to ensure that it performs its statutory functions. However, opportunities exist for the Board to improve controls over administrative procedures, management information systems, and human resources. (See page 49.)

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Overall Conclusion for the Six Agencies Receiving a Follow-Up Audit

- **Animal Health Commission (Commission)** - As of February 1998, the Commission had implemented 20 recommendations, partially implemented 13 recommendations, and had not implemented 6 recommendations. The Commission still needs to enhance its management of contracts, cash receipts, information systems, and human resources areas. (See page ?.)
- **Texas Commission on the Arts (Commission)** - As of November 1997, the Commission had implemented four recommendations, had partially implemented three recommendations, and had not implemented two recommendations. The Commission should also enhance controls in its procurement area. (See page ?.)
- **Texas Commission for the Deaf and Hard of Hearing (Commission)** - As of January 1998, the Commission had fully implemented 17 recommendations and had partially implemented 5 recommendations. (See page 17.)
- **Texas Commission on Fire Protection (Commission)** - As of January 1998, the Commission had implemented 20 recommendations, was in the process of implementing 9 recommendations, and had not implemented 4 recommendations. These recommendations are from the *1997 Small Agency Management Control Audit* (SAO Report No. 97-086, August 1997)

and agency assistance provided by the State Auditor's Office in November 1997. The Commission still needs to enhance its management information system. (See page ?.)

- **Texas Funeral Service Commission (Commission)** - We identified Commissioners' actions that were not consistent with laws and Commission policies. These actions could indicate or lead to the perception of lack of independence and lack of commitment to maintaining adequate controls over operations. For example:
 - The Commissioners overlooked internal policies for reciprocal license applicants which resulted in inconsistent treatment of non-qualifying applicants.
 - The Commissioners held a meeting which did not meet the criteria for being excluded from Open Meetings Act.

The Commission has corrected 15 of 17 recommendations identified in the previous audit. The remaining two recommendations are in the process of being implemented. (See page ?.)

- **Soil and Water Conservation Board (Board)** - As of November 1997, the Board had implemented three recommendations, was in the process of implementing four recommendations, and no longer needed to implement one of the recommendations made in October 1995. The Board still needs to enhance its policy management area. (See page ?.)

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Summary of Objectives and Scope

The objective of the management control audits at six small agencies was to determine if each agency had adequate controls to meet legislative mandates and deliver intended benefits.

The objective of the follow-up reviews at six small agencies was to determine if previous recommendations made by the State Auditor's Office had been implemented.

Board of Barber Examiners

Board of Barber Examiners

Detailed Issues and Recommendations

Overall Conclusion

At the Board of Barber Examiners (Board), significant control weaknesses in licensing, inspections, and investigations potentially limit the Board's ability to ensure that its mission will be achieved. Furthermore, the Board has not fully implemented recommendations made in prior State Auditor reports. Problems similar to the ones identified in this audit were also noted in audits from fiscal years 1995 and 1996 (management letter dated October 1994 and *1996 Small Agency Management Control Audit*, SAO Report No. 97-013, November 1996). The Board needs to ensure full implementation of the audit recommendations so that it achieves its statutory functions, uses resources appropriately, and manages employees effectively. In addition, the Board needs to monitor adherence to good operating procedures. We also identified weaknesses in human resources, financial management, and policy management.

The mission of the Board of Barber Examiners is to protect the Texas consumer and licensee from health risks by improving the practice of barbering through sanitation and sterilization, registration, licensing, and education of practitioners and to promote the efficient and orderly administration of laws that regulate barbers and the practice of barbering. In fiscal year 1997, the Board had 13 full-time equivalent employees and total expenditures of \$650,000.

Section 1:

Improve Controls Over Statutory Functions

Weaknesses exist in the statutory functions of licensing, inspections, and investigations. Weaknesses in these areas could result in unqualified applicants being licensed, barber shops not correcting problems, and complaints not being properly investigated.

Section 1-A:

Improve Compliance With Statutes Governing Examinations

The Board is not in compliance with the following laws governing examinations:

- Vernon's Texas Civil Statutes, Article 8407a, Section 10(a)(2) provides that each applicant must furnish the Board with a photograph accompanying the examination application. A second photograph must be presented to the Board when the applicant appears at the examination.

29 of 1,303 (2 percent) candidates in the period September 9, 1996, through August 4, 1997, were allowed to take the barber examination without producing identification at the test site. Furthermore, there was an inconsistency in treatment of candidates without identification at the May 5, 1997, examination.

At that examination, two candidates were allowed to take the exam without identification, while another two candidates were not allowed to take the exam without identification.

As a result of not always requiring photographic identification, the Board is not assured that the person who takes the examination is the person who applied to sit for the examination. This places the integrity of the examination function at risk. Candidates who are allowed to test without identification at the site are requested to forward their identification to the Board as soon after the exam as possible. However, photographs serve no purpose when the candidate is not present.

- Vernon's Texas Civil Statute, Article 8407a, Section (11)(a) requires the Board to have the written examination validated by an independent testing professional or purchase it from a national testing service.

The Board's written examinations for barbers with licenses that have been expired for over five years and for prison inmates are not purchased from a national testing service. Furthermore, there is no evidence they have been validated by an independent testing professional.

The fact that these written examinations are not the same as those exams given to the remaining test takers in the State raises questions of fairness, quality, and legality. If the examinations differ in their quality or difficulty, there may exist licensed, practicing barbers who have not met as strict a standard as their peers in the profession.

Recommendation:

We recommend that the Board comply with all laws regulating the examination process. In particular, the Board should ensure that:

- All candidates present a picture identification at the examination site
- The examinations for those whose licenses have been expired for five or more years and for prisoners be purchased from a national testing service or validated by an independent testing professional

Management's Response:

- *Beginning with the September 8, 1997, examination a positive photographic identification has been required of all examinees. Admission to the exams is not allowed without photographic identification.*
- *Beginning with the April 1998 examination all examinees will be given the same test which is produced and validated by a national testing service.*

Section 1-B:

Improve Controls Over Inspections and Complaint Investigations

The Board lacks formal policies and procedures to ensure consistent and efficient oversight of barber shops and schools. The Board performs inspections and investigations of barber shops and barber schools in order to enforce the Barber Law (Vernon's Texas Civil Statute, Article 8407a). However, our review of the inspection and investigation function identified three deficiencies:

- The Board lacks a formal risk assessment for inspections.
- The Board lacks formal policies and procedures for inspections.
- The Board lacks formal policies and procedures for investigations of complaints.

The Board has not implemented a formal risk assessment process for barber shop inspections despite a November 1996 audit recommendation by the State Auditor's Office (*1996 Small Agency Management Control Audit*, SAO Report No. 97-013). Such a process would help identify shops with recurring problems and assist in scheduling inspections of high-risk sites. This risk assessment could also be used to help develop inspection procedures.

The Board does not have formal policies and procedures to be followed when performing a site inspection. Such procedures should provide guidance to inspectors to ensure consistent and effective inspections. Inspection procedures should also emphasize previously identified high-risk areas.

The Board's guidebook on complaint procedures is incomplete. It focuses on how to enter complaints into a complaint tracking system; it does not address the policies and procedures that should be followed when handling complaints. As a result, the Board's eight inspectors are inconsistent in their handling of complaints.

The lack of a formal risk assessment process and formal policies and procedures increases the risk that barber shops and schools could pose a health and safety risk to the public.

Recommendation:

We recommend that the Board:

- Perform a formal risk analysis on all barber shops and schools and identify those with recurring problems. This risk analysis should be based on objective criteria. The results could be used to develop a schedule for inspections.
- Develop formal policies and procedures to be followed when performing inspections and when filing and investigating complaints.

Management Response:

- *In conjunction with advice from the State Auditor's Office, the agency will begin immediately to formulate a risk analysis program based on objective criteria.*
- *A draft copy of inspection procedures has been produced but needs enhancement. These procedures will be formalized and presented to the inspector staff in written format. These procedures will be completed and implemented not later than the end of FY98.*

Section 2:

Improve Controls Over Human Resources

Our review of controls over human resources identified two areas in which controls could be strengthened. The Board does not provide employees with timely performance appraisals. In addition, it has not prepared functional job descriptions for all positions. In fiscal year 1997, the Board expended over \$450,000 (69 percent of total expenditures) for salaries and payroll-related costs.

Section 2-A:

Provide Timely Performance Appraisals For Employees

The Board needs to strengthen controls to ensure appraisals of employee performance are performed on a timely and consistent basis. Annual performance appraisals are required per the Board's *Personnel Manual*. Ten of 13 employee files tested (77 percent) did not include a current performance appraisal.

A performance appraisal process should provide both timely objective feedback to employees and a foundation for human resources decisions (promotions, demotions, merit increases, and terminations).

Recommendation:

We recommend that the Board perform annual written performance appraisals on all employees.

Management's Response:

Written performance evaluations will be performed for all employees annually. These performance evaluations will be conducted within the last quarter of each fiscal year. A copy of the evaluation form will be given to each employee and a copy will be kept in each employee's personnel file.

Section 2-B:

Create and Maintain Functional Job Descriptions For All Positions

The Board does not have functional job descriptions for every position. Of the 14 files tested, 12 (86 percent) did not contain a job description. Without functional job descriptions, employees may not understand the specific responsibilities of their positions and may not be evaluated accordingly. Functional job descriptions should link to their associated state classified job position descriptions. The purpose of functional job descriptions is to identify and describe the specific tasks involved with each unique job position within an agency in order to promote efficient and cost effective operations.

Recommendation:

We recommend the Board develop and maintain functional job descriptions for all positions.

Management's Response:

A functional job description will be developed for each position at the agency which ties to a state classified job position description. This functional job description will be given to and discussed with each employee so that the employee clearly understands his or her job duties. Additionally, the job description will be maintained in the employee's personnel file and will be accessible to the employee upon request in order that the employee may review his or her job duties. We plan to implement this by the end of FY98.

Section 3:

Improve Controls Over Financial Management

Controls over financial management are not adequate to ensure that financial records are correct and resources are used effectively. Specifically, better controls are needed over record keeping, cash, and travel vouchers.

Section 3-A:

Improve Accounting Practices

The fiscal year 1996 *Annual Financial Report* (AFR) is incorrect. The Combined Balance Sheet is out of balance and the Furniture and Equipment account is understated by \$5,525 (7.4 percent of total assets).

These errors were the result of the Board staff being unfamiliar with the procedures for completing the AFR and not reconciling the Statewide Property Accounting System (SPA) fixed asset amount to the Uniform Statewide Accounting System (USAS).

Without an accurate AFR, the true financial position of the Board is not available to agency management and oversight. SPA policies and procedures recommend monthly reconciliations and adjustments to the general ledger balance as necessary.

Recommendation:

We recommend the Board:

- Provide training to its accounting staff on preparing the AFR.
- Perform monthly reconciliations of all fixed-asset transactions.

Management's Response:

- *The agency will obtain training and training materials from the Comptroller of Public Accounts regarding preparation of the AFR. Accounting staff will be required to assist contractor in preparation of future AFRs.*
- *Beginning in April 1998, the agency's accountant will be required to perform a monthly reconciliation of fixed asset transactions/accounts to the State Property Accounting (SPA) system. Reports will be generated and maintained in the agency's accounting files in order that transactions and account balances can be verified at all times.*

Section 3-B:

Improve Controls Over Cash Receipts

Our review of the Board's cash receipt process identified both a control weakness and noncompliance with state regulations. Controls over cash receipts do not provide reasonable assurance that Board funds are protected from loss, misuse, or abuse. We observed the following deficiencies in controls over cash receipts:

- Six of the 12 fiscal year 1997 cash deposits tested (50 percent) were not deposited within three days in accordance with Section 404.094 of the Texas Government Code (the "three-day rule"). The cash receipts that were deposited late totaled \$56,261 (8.6 percent of fiscal year 1997 revenues).
- Cash is kept in an unlocked safe during the day.

These weaknesses increase the risk that Board funds are not used for intended purposes.

Recommendation:

We recommend the Board:

- Comply with the three-day rule for depositing funds into the State Treasury
- Keep cash in a secure location at all times

Management's Response:

- *Beginning in September, 1997, (beginning of FY98) all deposits to the state treasury have been within the three day limit as required. Agency management will closely oversee the deposit process in order that all future deposits are within the three day rule.*
- *As of the date of the State Auditor's review it became the policy of the agency to require all cash to be in a secure location, i.e. a locked safe, unless it is being processed at the time. Cash is maintained in the safe unless being processed in conjunction with the licensing process or is being taken to the state treasury.*

Section 3-C:

Improve Controls Over Travel Vouchers

In our testing of 14 fiscal year 1997 travel vouchers for the six board members and eight inspectors, seven (50 percent) had errors, for a total of \$479.53. In noncompliance with state travel regulations, individuals were reimbursed for an upgrade on a rental car, mileage from residence to headquarters, mileage that differed from the Comptroller's Mileage Guide, and meals and hotel for a person not on travel status.

In our review of travel vouchers, we also noted that Board members sign blank travel vouchers which are later completed by Board staff. Although the staff uses receipts submitted by Board members to complete the travel vouchers, no one should sign a travel voucher unless confirming that the travel voucher is correct.

Additionally, in fiscal year 1997, travel vouchers were usually entered and released into USAS by the same person. Comptroller of Public Accounts guidelines recommend that different people enter and release a transaction into USAS.

By not fully complying with state travel regulations, the Board is at risk of misusing travel funds.

Recommendations:

We recommend that the Board:

- Ensure that travel vouchers are in compliance with all state travel regulations.

- Use the Comptroller of Public Account's *Mileage Guide* in determining mileage between cities.
- Have governing board members sign their individual travel vouchers after reviewing them for accuracy.
- Ensure segregation of duties in entering and releasing travel vouchers into USAS.

Management's Response:

- *All travel vouchers will be carefully processed and checked by appropriate agency accounting/management staff to adhere with all state travel regulations.*
- *Beginning FY98 all travel vouchers have been processed using the Comptroller's on-line mileage guide. All travel vouchers will continue to be processed with the Comptroller's on-line mileage guide in the future.*
- *Upon initial presentation of this finding, policy was changed and board members have not signed blank travel vouchers since that time. All vouchers are filled out by agency accounting personnel and are then submitted to board members for review. No travel voucher is processed until the payee has first been given the voucher to review and has signed the voucher after it has been filled out.*
- *Due to agency size (14 FTE's) and turnover, there have been times in which there was not full staffing in the accounting and/or managerial areas. During that time one individual did enter and release travel vouchers into USAS. However, since full staffing has been achieved, there has been a segregation of duties. In the future it is the intent of the agency to segregate duties of entering and releasing all USAS transactions.*

Section 4:

Improve Policy Management

The Board lacks formal, organized policies and procedures relating to the governing board and executive management. The lack of policies and procedures at this level may have contributed to inappropriate interactions of governing board members with internal and external parties. In violation of state law, governing board members sent a letter to licensees encouraging them to contact legislators about not merging the Board with the Cosmetology Commission.

There may be a recurring problem with inappropriate or excessive contact between members of the governing board and Board staff. Previous governing board and executive management have issued memorandums in this regard. Governing board

members report that recent turnover and lack of barbering experience in the Executive Director position necessitated their increased involvement in the daily operations of the Board. As a general rule, governing board members should observe the organization's established chain of command and mainly interact with the Executive Director. The governing board should avoid active involvement in the daily activities of Board staff. The Executive Director is responsible for ongoing operations.

Although the Board relies on statutes in the Administrative Code and various internal memoranda to help it in its oversight, these are incomplete. High-level policies and procedures help to ensure ethical behavior and the integrity, efficiency, and effectiveness of an organization's operations.

Another benefit of policies and procedures is to provide a structure for clarifying roles and responsibilities of governing board members in providing oversight of the agency. For example, until recently governing board members were not given regular information other than agendas and minutes at governing board meetings to help them in their oversight of the Board. Implementing procedures requiring the provision of financial reports and information related to Board operations would help the governing board members ensure that the Board achieves its mission.

Recommendation:

We recommend that the governing board develop, distribute, and implement formal policies and procedures to identify responsibilities of the governing board and executive management. These should include the areas of external communications, contact with non-executive Board staff, and appropriate governing board oversight of Board operations.

Management's Response:

The board members will develop, implement, and distribute formal policies and procedures regarding the responsibilities of the board and of executive management. Such policies will be formalized and written and will cover the suggested areas of external communications, contact with non-executive staff and appropriate board oversight of agency operations. All agency personnel will be informed of this and required to adhere to these policies.

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Texas School for the Deaf

Texas School for the Deaf

Detailed Issues and Recommendations

Overall Conclusion

The Texas School for the Deaf (School) has established adequate management control systems to ensure that it performs its statutory functions. However, the School needs to improve controls over human resources, financial management, and management information systems.

The two major functions of the School are to provide direct educational services to students enrolled at the School and to provide a variety of outreach services to professionals and programs throughout the State. In fiscal year 1997, the School had 445 full-time equivalent employees and expenditures of \$18,522,098.

Section 1:

Improve Controls Over Human Resource Management

The School has weaknesses in several areas of human resources. These weaknesses impacted almost \$15 million in salaries and related payroll costs in fiscal year 1997. In particular, we noted that the School:

- Does not have adequate controls to ensure full compliance with the Fair Labor Standards Act
- Does not provide timely performance appraisals to employees or guidelines to evaluators to ensure consistency and fairness
- Has not prepared and maintained functional job descriptions for all positions
- Does not have a formal training budget or goals

Section 1-A:

Improve Procedures Over Fair Labor Standards Act (FLSA) Administration

The School has not developed or implemented adequate procedures to ensure full compliance with the Fair Labor Standards Act (FLSA). Management has not recently evaluated the duties and responsibilities of each classified position to make a determination as to exempt or nonexempt status based on U.S. Department of Labor regulations. Furthermore, documentation has not been maintained to support the basis on which determinations are made.

An agency found to have made an incorrect determination is liable for back wages for a period of up to two years from the date of an employee's claim and up to three years if the agency is found to have willfully violated any of the provisions of FLSA.

Recommendations:

We recommend that the School:

- Periodically review the duties and responsibilities of all classified positions to determine the appropriate FLSA exempt or nonexempt status
- Maintain documentation to support FLSA determinations

Management's Response:

- *As recommended in Section 1-C, the School has begun a project to develop functional job descriptions for all positions. As each "family" of jobs is brought forward for study and functional job descriptions developed, FLSA status and determinations will be concurrently reviewed. This project is scheduled to be completed during FY 1999. Thereafter, FLSA status will be reviewed periodically.*
- *As FLSA determinations are reviewed, they will be recorded on the functional job description and documentation will be maintained in the Human Resources office.*

Section 1-B:

Improve the Performance Appraisal Process

The School does not have adequate controls in place to ensure that appraisals of employee performance are performed on a timely basis. We reviewed the personnel files of 13 employees and noted that 11 files (85 percent) did not contain a current performance appraisal.

In addition, we noted problems with the appraisal system itself. The rating scales for classified employees are not clearly defined. There is one appraisal form for all classified employees which is based on general criteria applicable to all employees. Employees should be evaluated on criteria specific to their job descriptions. The form contains a space for a total score but lacks guidelines or specific examples to help evaluators provide consistent and fair appraisals of employees.

Performance appraisals provide feedback to employees which supports good performance, helps to correct and discourage poor performance, and provides a foundation for human resources decisions (promotions, demotions, merit increases, and

terminations). Additionally, School policy states that employees should receive annual appraisals.

Recommendations:

We recommend that the School:

- Follow its policy requiring annual performance appraisals
- Revise procedures to use evaluation criteria specific to the job position being evaluated
- Provide guidelines and specific examples to evaluators to ensure consistency in employee appraisals

Management's Response:

- *The School will review, and revise where necessary, the procedures currently in place to ensure that the School's policy requiring annual performance evaluations is implemented. This will be completed during FY 1998.*
- *As recommended in Section 1-C, the School has begun a project to develop functional job descriptions for all positions. As each "family" of jobs is brought forward for study and functional job descriptions developed, evaluation criteria specific to the position will become the basis of a revised evaluation document. This task will be completed in conjunction with the project to develop functional job descriptions, which should be completed during FY 1999.*
- *The School will develop guidelines and train evaluators on the use of the specific job criteria in the performance evaluation process. Additionally, the School will develop examples of how to apply performance ratings to ensure consistency. This should be completed during FY 1999.*

Section 1-C:

Create and Maintain Functional Job Descriptions for all Positions

The School did not have functional job descriptions retained in 6 of the 13 employee files tested (46 percent). The purpose of functional job descriptions is to identify and describe the specific tasks involved with each unique job position within an agency in order to promote efficient and cost-effective operations. Without them, employees may not understand the specific responsibilities of their positions or be evaluated accordingly. Functional job descriptions should link to the associated state classified job position descriptions.

Recommendation:

We recommend the School prepare and maintain functional job descriptions for all positions.

Management's Response:

The School has begun a project to develop functional job descriptions for all positions. These job descriptions will be developed to identify and describe the specific tasks of each position and will become the basis of their performance evaluation. We anticipate that this project will be completed during FY 1999.

Section 1-D:

Develop a Training Budget, Training Goals, and a System to Identify Training Needs

The School does not have a formal training budget, short- or long-term training goals, or a system to identify training needs. Without these, there is a risk that employees will not receive the training needed to increase their job productivity. A good overall training plan optimizes employee productivity, enhances professional and personal development, and assists the entity in accomplishing its goals and objectives.

Recommendations:

We recommend that the School develop an overall training plan which establishes:

- Both short- and long-term plans with clearly stated objectives and a direct relationship to the School's mission and goals
- A training and development budget designating the amount of time and funds to be spent on training
- A means of identifying and prioritizing training and development needs

Management's Response:

The School has an overall training plan for its contract personnel that is built into the state teacher assessment program, PDAS (Professional Development Assessment System). Training plans for contract staff are implemented through the School's District and Site-Based Decision Committees and a specific calendar of training activities is submitted and approved by TEA on an annual basis.

- *The School agrees that a short and long-term plan with clearly stated objectives and a direct relationship to the School's mission and goals needs to*

be developed for classified employees. The School has recently hired a new Staff Development Specialist who will take an active role with the School's management staff in designing this training plan which will be completed in FY 1998.

- *The School currently designates a specific number of days and hours for staff development purposes on the school calendar. These days are primarily focused on training for direct student service staff, both contract and classified. The School also budgets funds to support these designated training days in addition to funds to meet the individual training needs of staff. Presently the funds to support this training are not easily identifiable as a separate item or activity in our budget. The School will develop a training budget to identify time and funds to support the staff development needs of all staff for FY 1999.*
- *The School will develop a formal needs assessment to identify and prioritize the training and staff development needs of nondirect student service classified staff. (This process is currently in place for contract staff through the Professional Development Assessment System, PDAS). The School currently ensures that each individual completes all required training annually. Our new challenge is to assess the feasibility and the mechanism to provide job specific training within time and budget constraints. This project should be completed during FY 1999.*

Section 2:

Improve Controls Over Financial Management

The School needs to improve controls over financial management. Specifically, we noted that the School:

- Has inadequate separation of duties and supervisory control over cash transactions
- Has inadequate controls over fixed assets

Section 2-A:

Improve Separation of Duties and Supervision Over Cash Transactions

Inadequate separation of duties and supervisory controls resulted in allegations of two separate incidents of missing cash reported by the School. These incidents were investigated by appropriate law enforcement agencies. A likely contributing factor to these control breakdowns was the delay by the School in replacing key personnel in the divisions involved. The School was without a human resources director for

approximately four months (May through August 1997) and a full-time cashier from August 19, 1997. By not replacing key personnel in a timely manner, the control environment of the School was compromised.

The amount of missing cash and misappropriation of funds originally totaled approximately \$6,000. The Human Resources Director detected the missing cash from the Human Resources Department. As a result of this detection, approximately \$5,200 was returned to the School. Currently, \$350 from the Human Resources Department and \$500 from the Cashier's Office are still missing.

Recommendation:

We recommend the School:

- Ensure that duties involved in cash transactions are separated and supervised.
- Replace key positions in a timely manner

Management's Response:

- *Procedures have been revised to correct the situation where separation of duties and supervisory controls were inadequate. The School will strive to assure that adequate separation of duties and supervision is maintained in all situations.*
- *The School will increase its efforts to post key positions in a timely manner. We do anticipate, however, that in certain circumstances our unique needs for specialized personnel may cause extended timelines.*

Section 2-B:

Improve Controls Over Fixed Assets

The Commission needs to improve controls over fixed assets to prevent loss, misuse, or theft. At the end of fiscal year 1997, the School reported over \$3.8 million in furniture and equipment, vehicles, and library books. During our review of fixed assets, we noted:

- Inventories are not consistently conducted in a timely manner.
- A separation of duties in performing inventories is lacking.
- There are no regular reconciliations of property to the State Property Accounting (SPA) systems.

According to *SPA Policies and Procedures*, a physical inventory of all personal property must be conducted by at least two individuals at least once a year. Additionally, the

property manager should not inventory items for which he or she is responsible. The School's policies and procedures also require a timely completion of inventory. Finally, the Comptroller of Public Accounts recommends that state agencies complete SPA reconciliations monthly.

Without proper controls over fixed assets, the School cannot ensure that they are used for intended purposes. Adequate controls are essential to safeguarding the assets of the School and to detecting errors and irregularities promptly.

Recommendations:

We recommend the School:

- Require inventories be conducted in a timely manner by teams of at least two independent individuals.
- Perform monthly fixed asset reconciliations as recommended in the SPA system guidelines.

Management's Response:

- *The School will revise procedures to require that teams of two conduct inventories and will strive to ensure that all inventories are completed in a timely fashion.*
- *All fixed asset reconciliations have now been completed and will be performed monthly in the future.*

Section 3:

Prepare a Formal Disaster Recover Plan

The School does not have a written formal disaster recovery plan that describes how it intends to respond to events that disrupt its normal operations. However, the Information Department backs up automated information daily and stores it in a fire proof safe at the School's East Campus on a weekly basis.

The Department of Information Resources (DIR) requires all state agencies to submit a disaster recovery plan for its automated systems which includes, but is not limited to, the following:

- Frequency of automated information backup
- Location of off-site storage
- Prioritized list of essential functions

- Names and current telephone numbers of the recovery team
- A description of the minimum configuration needed to operate, including processor, storage space, telecommunications, and equipment
- Annual testing of the system

Recommendation:

We recommend the School develop and implement a formal disaster recovery plan that complies with DIR guidelines to ensure that it can effectively resume operations in case its primary automated data and/or equipment is destroyed.

Management's Response:

The School has included a disaster recovery project in its FY 1998-99 Biennial Operating Plan for Technology. This includes a written plan that will comply with DIR guidelines to ensure effective resumption of automated information systems operations in the event of a significant emergency, disaster or business interruption.

Texas State Board of
Medical Examiners

Texas State Board of Medical Examiners

Detailed Issues and Recommendations

Overall Conclusion

The Texas State Board of Medical Examiners (Board) has established adequate management controls for licensing, management information systems, and enforcement. However, weaknesses were noted in human resource management and purchases from historically underutilized businesses.

The Texas State Board of Medical Examiners, funded by licensing and annual registration fees, examines, regulates, and investigates physicians. In fiscal year 1997, the Board had 89 full-time equivalent employees and expenditures of \$5.2 million.

Section 1:

Strengthen Controls Over Human Resources

Weaknesses in human resources controls potentially limit the Board's ability to ensure that its human resources processes are consistently effective, efficient, and in compliance with applicable laws and regulations. This is significant since the Board spent \$3.5 million, 69 percent of its total expenditures, on salaries and payroll-related costs.

Section 1-A:

Strengthen Controls Over Decentralization of Human Resource Functions

Each division of the Board manages its own human resource functions. This decentralized approach increases the risk of both inconsistencies in human resource management processes and noncompliance with state and federal regulations. The Board should consider strengthening controls to compensate for these increased risks.

Recommendations:

We recommend that the Board:

- Develop, implement, and more routinely monitor implementation of agencywide policies and procedures for human resource management.
- Ensure that staff members responsible for human resource functions are adequately trained on human resource processes, policies, and procedures.
- Strengthen planning, coordination, and oversight of prior and planned decentralization of human resource functions.

Management's Response:

An agency wide project has met several times to date. Our managers and supervisors are noting concerns and developing processes to improve our controls and assure greater consistency among our departments. Additional authorization, consistent verification, and centralization of documentation will be implemented to improve this area. The target date for completion of this project is June 1, 1998.

Section 1-B:

**Improve Procedures Over Fair Labor Standards Act (FLSA)
Administration**

Management has not recently evaluated the current duties and responsibilities of each position to make a determination as to exempt or nonexempt status based on U.S. Department of Labor regulations. In addition, the Board has not maintained documentation to support the basis on which determinations are made. Inadequate control procedures to ensure compliance are a contributing factor to these weaknesses.

An agency found to have made an incorrect determination is liable for back wages for a period of up to two years from the date of an employee's claim and up to three years if the agency is found to have willfully violated any of the provisions of FLSA.

Recommendation:

We recommend that the Board:

- Periodically review the duties and responsibilities of all classified positions to determine the appropriate FLSA exempt or nonexempt status.
- Maintain and monitor documentation to support FLSA determinations.

Management's Response:

Each department is now analyzing the job descriptions of their personnel. One objective of this study is to make decisions regarding the FLSA status for each position. These will be documented and this documentation will be centrally located. This will be completed by June 1, 1998.

Due to the difficulty of this area, we have discussed the issue with several other agencies. Inconsistency among these agencies appears to be the rule. A need exists for simple guidance that would generally be applicable to most agencies. This would assist our decision making, and assure greater consistency statewide and within each individual agency. The State Auditor could be a tremendous resource in this area.

Auditor's Follow-Up Response:

Because the duties of positions vary greatly within and across state agencies, even within single class titles, it is not possible for the State Classification Office to accurately determine FLSA status at the classified job position level. Therefore, each individual agency is responsible for determining the proper status of each of its functional job positions. The State Classification Office has supplied materials to the Board to assist it in determining proper FLSA status. The U.S. Department of Labor is also a good resource should additional assistance be needed.

Section 1-C:

Maintain Employee Selection Documentation

Documentation of the employee selection process could be improved. In our test of 11 personnel files, we were unable to determine if the Board's selection process resulted in the hiring of the most qualified candidate. Improved documentation would put the Board in a better position to defend its employment decisions in the event they are challenged. In addition, the Texas State Record Retention Schedule requires agencies to keep for two years audio and video tapes of job interviews and other records which document the selection process.

Recommendation:

We recommend that the Board keep all documentation relating to the employee selection process as required by law.

Management's Response:

Brief training has already been provided supervisors to address this issue. We are now assuring that interview checklists are being used both for interviews as well as for hiring decisions. This documentation is collected centrally before an offer of employment can be made. Implementation of this process will be finalized by June 1, 1998.

Section 1-D:

Improve the Performance Appraisal Process

The Board does not have adequate controls in place to ensure that appraisals of employee performance are performed on a timely basis. We reviewed the personnel files of nine employees and noted that two files (22 percent) did not contain a current performance appraisal.

In addition, we noted problems with the appraisal system itself. There is one appraisal form for all classified employees which is based on general criteria applicable to all

employees. Employees should be evaluated on criteria specific to their job description. The form lacks guidelines or specific examples to help evaluators consistently and fairly determine scores.

Performance appraisals provide feedback to employees which supports good performance, helps to correct and discourage poor performance, and provides a foundation for human resources decisions (promotions, demotions, merit increases, and terminations).

Recommendation:

We recommend that the Board:

- Revise procedures to use appraisal criteria specific to the job position being evaluated.
- Provide guidelines and specific examples to evaluators to ensure consistency in employee appraisals.

Management's Response:

Part of the project to improve the Human Resource area by June 1, 1998, has been directed at the evaluation process. Evaluation procedures and documents have been shared by the Board of Nurse Examiners, Office of the State Auditor, and Comptroller of Public Accounts. It is anticipated that some adaptation of the processes used by these three agencies will be used to change our instrument and process. The evaluations will become more specific to job descriptions. These descriptions are also being rewritten as a result of the audit. Requiring the evaluations to be more specific and directly related to different job positions should force both supervisors and staff to focus on their unique responsibilities.

We are currently using reports provided by the Uniform Statewide Payroll/Personnel System (USPS) to provide advance notification of scheduled times for 12 month evaluations. This will provide assistance to assure timely evaluations.

Section 2:

Improve Compliance With Historically Underutilized Businesses (HUB) Regulations

Although the Board has made an effort to increase the contracts awarded to HUB vendors, the following areas need some improvement:

- The Board did not comply with Section 2161 of the Government Code. This section requires the Board to maintain and compile monthly information relating to the use by the Board and each of its operating division of HUBs, including information regarding subcontractors and suppliers.
- Also in noncompliance with Section 2161 of the Government Code, the Board did not estimate the total value of contract awards for HUBs expected for fiscal year 1997 by the 60th day of the fiscal year.

These compilations are required by state law to ensure accuracy in reporting and compliance with the General Service Commission's "good-faith effort" requirements.

On a positive note, the Board has (1) established HUB rules and procedures in accordance with statewide HUB goals and rules and (2) used the General Services Commission's list to identify HUBs that are available to meet its needs.

Recommendations:

We recommend that the Board:

- Maintain monthly information relating to the use of HUBs as required by Government Code Section 2161.
- Calculate the expected awards of HUBs by the 60th day of the fiscal year as required by Government Code Section 2161.

Management's Response:

We will have to initiate a manual effort to comply with the audit recommendation. There are no monthly reports available from either the General Services Commission or the Comptroller to assist agencies in complying with the Texas Government Code Section 2161. Our purchasing and payment systems are entirely dependent on those two agencies. We do not have size or volume to justify stand alone systems of our own. Our requisition log will be used to manually compile the information related to HUB usage. This process will also be implemented by June 1, 1998.

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Board of Nurse Examiners

Board of Nurse Examiners

Detailed Issues and Recommendations

Overall Conclusion

The Board of Nurse Examiners (Board) has established adequate management controls for management information systems, licensing, enforcement, and human resources to ensure that it fulfills its statutory functions. However, the Board can improve controls over contracts and purchases from historically underutilized businesses.

The Board regulates the practice of professional nursing and establishes standards for nursing education. In fiscal year 1997, the Board had 43 full-time equivalent employees and expenditures of over \$3 million.

Improve Controls Over Historically Underutilized Businesses (HUB) and Contracting to Ensure Compliance With State Laws and Regulations

Although the Board is making an effort to increase the contracts awarded to HUB vendors, the following areas need improvement:

- The Board did not meet statewide HUB goals for fiscal years 1996 and 1997 as required by Title 1 of the Administrative Code, Section 111.13 © and (d).
- The Board did not comply with Section 2161 of the Government Code. The Board did not compile and maintain monthly information relating to its use of HUBs, including information regarding subcontractors and suppliers. Also, the Board did not estimate the total value of contract awards expected for fiscal year 1997 by the 60th day of the fiscal year. These compilations are required by the Government Code to ensure accuracy in reporting and compliance with the “good-faith effort” requirements.
- The Board did not include the HUB subcontracting language in its bid and contract documents for the Peer Assistance Review Program. Title 1 of the Administrative Code, Section 111.14, requires agencies’ bids and contract documents for construction, professional services, other services, and commodities exceeding \$100,000 to include HUB subcontracting good-faith effort guidelines and goals as established in Title 1 of the Administrative Code, Section 111.13.

Recommendations:

We recommend that the Board:

- Continue to meet statewide HUB goals.
- Maintain monthly rather than quarterly information relating to the use of HUBs.

- Calculate the expected awards of HUBs by the 60th day of the fiscal year.
- Ensure that contracts include the required subcontractor HUB language and that contractors comply with state guidelines on purchases from HUBs.

Management's Response:

We concur with the State Auditor's finding above. The Board of Nurse Examiners has intensified its efforts to meet the statewide HUB goal for this biennium. Although we did not maintain monthly reports of our HUB usage, the Board did maintain quarterly reports. We have implemented a monthly reporting system for fiscal year 1998. We also will begin estimating the total value of contract awards expected for fiscal years 1998 and 1999 by the 60th day of each fiscal year.

Texas Racing Commission

Texas Racing Commission

Detailed Issues and Recommendations

Overall Conclusion

At the Texas Racing Commission (Commission), control weaknesses potentially limit the Commission's ability to ensure that its mission is achieved. By improving and consistently enforcing policies and procedures in both program and administrative areas, the Commission will strengthen its regulation of the racing industry. Program areas for improvement include licensing, enforcement, and inspections. Administrative areas for improvement include financial management, human resources, and access to management information systems. The Commission has already begun corrective action on some findings in this report.

The Commission is responsible for regulating all aspects of pari-mutuel wagering on horse and greyhound racing. During fiscal year 1997, the Commission had 61 full-time equivalent employees and expenditures of approximately \$8.9 million, of which \$5.6 million were pass-through funds to the Texas Bred Incentive Program.

Section 1:

Strengthen Controls Over Licensing, Enforcement, and Inspections

Weaknesses in licensing, enforcement, and inspections limit the Commission's ability to ensure that it is effectively regulating the racing industry.

Section 1-A:

Ensure Licensees Meet Licensing Requirements

The Commission has inadequate controls to ensure that only qualified applicants are licensed. Although the Commission has procedures to follow before issuing licenses, it has not always followed those procedures. As a result, some licenses were awarded without either ensuring or properly documenting that all applicants fulfilled the necessary requirements. Our review of 60 applications revealed the following results:

- 20 of 48 (41 percent) applications tested did not have the required approval signatures.
- 2 of 5 (40 percent) applicants who were required to take an examination did not have a Commission form in their files to indicate whether they had passed or failed. The files of two other applicants, who initially appeared to require a licensing examination, did not contain documentation that the examination was not necessary because the applicants were reciprocal applicants from other states.

Recommendation:

We recommend that the Commission revise and appropriately modify its occupational licensing procedures to ensure that the required support for each type of license is obtained and documented before granting occupational licenses.

Management's Response:

Under the Texas Racing Act, V.T.C.S. Art. 179e, §7.09, the Texas Racing Commission is authorized to issue a temporary occupational license either as an original license or as a renewal, pending verification of the applicant's qualifications. A requirement for an original license and some renewal licenses is the submission of fingerprints for analysis by the Department of Public Safety and the Federal Bureau of Investigation. This process often takes several weeks. Further, the Commission's practice, which is consistent with racing commissions around the United States, is to receive and process the vast majority of license applications at licensing offices at the racetracks. Because most applicants do not live near the racetracks, often applicants apply for a license only a few hours before they are scheduled to participate in pari-mutuel racing. To ensure the orderly conduct of pari-mutuel racing, the Commission routinely issues occupational licenses pending a full review of qualifications.

The Commission recognizes, however, that its procedures need to reflect the unique circumstances regarding the issuance of racing licenses and to ensure the follow-up review of license applications is complete and documented. The Commission has begun a review of its occupational licensing procedures and will complete the revision and documentation of the procedures by September 1, 1998.

Section 1-B:

Strengthen the Enforcement Process

The Commission does not have adequate controls and procedures to ensure that all enforcement rules and regulations are followed. Our review of licensees who were investigated revealed a lack of consistency in the penalties that were assessed.

The Board of Stewards at horse tracks and the Board of Judges at dog tracks have the authority to assess violations of the Racing Act and set penalties up to \$5,000 including suspension of licenses. When a licensee is charged with an offense, the case is initially investigated by the race track at which the offense occurred.

The Commission has guidelines to assist the Stewards and Judges in assessing penalties for medication violations, but it lacks guidelines for other types of violations. However, the extent to which the existing guidelines have been communicated to the Stewards and Judges or to which they are being used is unknown.

Our review of three horse racing violations identified exceptions to the penalty guidelines. According to the guidelines, Class II violations for horses should have penalties ranging from \$1,500 to \$2,500, a 6 month to 1 year suspension, and the loss of purse. It should be noted, however, that the guidelines provide for the

imposition of a lesser penalty when the majority of the Stewards determine that mitigating circumstances so require. Our review showed:

- Two of the three incidents (67 percent) resulted in assessed fines outside the guidelines, one lower than the guidelines and one higher.
- Three of the three incidents (100 percent) resulted in suspension for less than the recommended period.
- Three of the three incidents (100 percent) resulted in a loss of the purse, which is in compliance with the guidelines.

Violation Tested	Track	Class of Violation	Fine Assessed	Days Suspended	Loss of Purse
1	Retama	II	\$1,000	60 Days	Yes
2	Manor Downs	II	\$3,000	90 Days	Yes
3	Retama	II	\$2,500	60 Days	Yes

The Commission does not have formal guidelines for licensees who repeatedly violate Commission rules. It is unclear how repeat offenses are handled. Our review identified 737 cases opened from January 1, 1989, through November 18, 1997, which involved licensees with three or more violations. These cases involved a total of 147 licensees. Many of the violations committed by these repeat offenders were for the same offense. For example, one licensee had 15 violations, 9 involving medication violations. Since its inception in 1986, the Commission has revoked 6 licenses and denied or withdrawn 217 licenses.

Recommendations:

We recommend the Commission:

- Clarify its policies and procedures regarding (1) the intended use of its penalty guidelines for medication violations and (2) how strictly the Commission intends for the guidelines to be followed.
- Develop written penalty guidelines for non-medication violations, and distinguish between serious and minor violations.
- Develop guidelines for dealing with licensees who commit multiple violations. These guidelines should include criteria for revoking and for not renewing licenses. The Commission could use its rulings database to track multiple offenders and enforce guidelines.
- Develop procedures for reviewing Stewards' and Judges' rulings to ensure consistency with the penalty guidelines.

Management's Response:

The Commission has had penalty guidelines for medication violations for both horses and greyhounds since 1991. The agency cannot state with certainty, however, the extent to which these guidelines have been communicated to the Stewards and Judges or to which they are being used.

On February 17, 1998, the Commission distributed to all Stewards a memorandum reiterating the penalty guidelines for medication violations in horses and clarifying the procedures for documenting mitigating circumstances that result in penalties that deviate from the guidelines. The Commission plans to issue a similar memorandum for medication violations in greyhounds by the end of March 1998. The Commission plans to complete penalty guidelines for other types of common violations by September 1, 1998. To ensure consistent application of the guidelines, the Commission will develop a procedure for reviewing rulings which will be fully implemented by September 1, 1998.

Since 1990, the Commission has licensed 56,532 individuals; only 147 licensees have violated the Commission's rules more than twice. The Commission's recidivism rate, therefore, is approximately 1/4 of 1%. The Commission agrees with the need for clarification of its policies regarding repeat offenders and documentation of those policies. The written policies regarding repeat offenders will be completed by September 1, 1998.

Section 1-C:

Enhance the Inspections Process

The Commission does not consistently follow its internal policies and procedures for inspections. In 1996, the Commission implemented procedures requiring inspections in five areas of all Texas tracks at least once a year. These inspection areas include administrative operations, pari-mutuel and simulcasting operations, live racing operations, animal health and safety and drug testing operations, and safety and security.

Our review of the inspections process identified three deficiencies:

- During the period from November 1996 through November 1997, the Commission did not perform all inspections required by its policies and procedures:
 - Six out of seven race tracks (85 percent) were not inspected for administrative operations. (This type of inspection addresses maintenance, cleanliness, accommodations for disabled persons, accounting systems, posting of public notices, and other items.)
 - Two out of seven race tracks (28 percent) were not inspected for safety and security.

- Four out of seven race tracks (57 percent) were not inspected for animal health and safety violations.
- One out of seven race tracks (14 percent) did not receive an inspection of pari-mutuel and simulcasting operations.
- One out of seven race tracks (14 percent) did not have an inspection for live racing operations.

According to the Executive Secretary, the Commission is in the process of revising its inspection schedule to better align with the types of inspections performed.

- The summary report on inspection activities makes it difficult for Commissioners to assess compliance with and results of its inspection policies and procedures. The report shows only what was inspected since the last Commissioners' meeting. It does not identify past-due inspections or prior inspection results. Additionally, insufficient information is provided in the report on the status of remediation efforts by race tracks in response to violations.
- Inspection reports and individual files for race track inspections had multiple deficiencies, including the lack of a signature by the race track representative, the lack of documentation that compliance letters were sent to race tracks that were in compliance, and the lack of evidence that race tracks had corrected problems identified in inspection reports.

Recommendation:

We recommend that the Commission:

- Implement steps to ensure that all required inspections are performed annually or as directed in the Commission's policies and procedures.
- Redesign the Commissioners' report format to show status and results of all types of inspections.
- Ensure that inspection reports and inspection files are complete.

Management's Response:

The Commission has on-site personnel at each operating racetrack to ensure ongoing compliance with all critical items affecting the health and safety of the race animals

and the participants in racing, as well as the integrity of pari-mutuel racing. The Commission is in the process of reviewing the inspection program procedures and will have appropriate revisions implemented by January 1, 1999.

Section 2:

Significant Weaknesses Exist In Financial Management

The Commission has significant control weaknesses in financial management. These weaknesses include:

- A lack of controls over cellular telephones
- Inadequate controls over travel vouchers
- Inadequate controls over petty cash and travel advance funds
- Not ensuring that cash receipts are deposited within three business days
- Inadequate controls over disbursements

Section 2-A:

Establish Controls Over Cellular Telephones

The Commission has inadequate controls over the use of cellular telephones by Commission employees. As a result, the Commission cannot prevent or detect misuse of cellular telephones. During fiscal year 1996, the Commission assigned Commission-owned cellular telephones to seven employees and paid the telephone bills for the individually owned cellular telephones of two other employees.

The Commission has traditionally operated on the “honor system” to reimburse the Commission for personal use of their state-issued or privately-owned cellular telephone. If an employee makes no reimbursement, the Commission assumes there was no personal use of the telephone. Furthermore, the Commission does not require cellular telephone users to log their telephone calls or monitor the use or billings in any way.

In our review of seven cellular telephone billings from November 1995 through July 1996, we identified one individual who did not reimburse the Commission until several months later for calls made in previous months and did not reimburse the Commission at all for calls made to telephone numbers when other calls to the same telephone numbers were reimbursed. It appears that, either intentionally or accidentally, some personal telephone calls were not reimbursed. The total amount of the seven telephone billings tested for this individual was \$778.95, and the total that was reimbursed for personal telephone calls during the period was \$30.65.

In addition, the Commission does not require employees to complete a property form when they are issued a state owned telephone. This is in violation with the *State Property Accounting (SPA) Policy and Procedure Manual* which requires that property assigned to employees must be used for state purposes only and must be signed for by the person to whom it is assigned.

Without strong policies and procedures in place, the Commission cannot ensure that cellular telephones are used for state business.

Recommendations:

We recommend that the Commission develop and implement policies and procedures over cellular telephones to ensure:

- The Commission monitors cellular telephone billings and use.
- Employees reimburse the Commission for any personal telephone calls on a cellular telephone whose billings are paid by the Commission.
- Employees sign a property form when issued a cellular telephone.

Management's Response:

On February 1, 1998 the Texas Racing Commission implemented a cellular telephone policy to prevent and detect misuse of cellular telephones. The policy was included in the Employee Handbook and distributed to all Commission staff. Each individual assigned a cellular phone must sign a form acknowledging he or she understands the policy and will abide by it. The cellular phone policy requires each user to maintain a written log of calls and to reimburse the state for all personal calls. Failure to adhere to the policy may result in disciplinary action including but not limited to termination.

As of February 22, 1998 each employee of the Commission assigned any state equipment such as a cellular telephone, pager, and lap-top computer is required to sign a Property Receipt Form. This form contains the equipment description and serial number as well as the financial liability statement required in the State Property Accounting Policy and Procedure Manual.

Section 2-B:

Improve Controls Over Travel Voucher Processes

The Commission does not consistently ensure compliance with state travel regulations. It allowed an employee to have airfare paid for by the State when the expenses were not incurred in the conduct of official state business. The employee was reimbursed twice for the \$983 airfare, once by the Commission and once by a private organization. The State was only reimbursed 11 months later when the auditors asked about the voucher.

Four of 11 (36 percent) travel advance vouchers did not have any form of approval. A total of \$2,488 was paid in travel advance vouchers that were not approved. Three of the four exceptions were submitted for payment by the former Executive Secretary and had no approval. This was a deviation from internal policies and procedures. The internal procedure that requires an approval signature helps prevent errors or abuse.

Recommendation:

We recommend that management follow state travel regulations and comply with its internal policies and procedures for approving travel vouchers.

Management's Response:

In January 1998, the Commission issued a revised employee handbook which contains specific information regarding travel obtained from the State Auditor's Human Resources Inventory 1998-99. The travel information included in the handbook provides specific information to all employees regarding the State of Texas Travel Allowance Guide, the amounts an employee may be reimbursed for mileage, lodging, and meals, and use of state-issued credit cards. The handbook has been distributed to all agency employees and is included in the information provided to new employees.

Section 2-C:

Correct Weaknesses With Petty Cash and Travel Advance Accounts

Weaknesses in controls over petty cash and travel advance accounts limit the Commission's ability to prevent errors, fraud, and abuse:

- The two checkbooks for petty cash and travel advance funds are kept in an unlocked desk. Although they are kept in a locked office, staff cannot identify all persons who have keys to the office.
- Two former employees, one being the person accused of cellular telephone abuse and the other who left the Commission in fiscal year 1993, were still listed on the signature card for both the petty cash and travel advance fund accounts in November 1997.
- The Commission does not have policies and procedures for administering petty cash and travel advance funds.

We tested 11 petty cash vouchers:

- Six petty cash vouchers (55 percent) totaling \$1,780 lacked an invoice, receipt, or other supporting documentation.
- Two petty cash vouchers (18 percent) totaling \$503 were prepared and approved by the same person.

Recommendation:

We recommend that the Commission:

- Change the lock to the office or desk in which the checkbooks are kept, assign keys to only those employees that need access based on their job duties, and keep account of who has a key.
- Implement termination procedures which include deleting check signing authority and returning keys for staff on their last day of employment. Employ a check list which is initialed by the person doing the deletion and receiving the key.
- Require that disbursements from petty cash and travel advance funds be supported by an invoice or receipt and be prepared and approved by separate people.

Management's Response:

The Accounting Division has secured the two checkbooks for petty cash and travel advance funds into a locked file cabinet. Only the Chief Accountant and the Chief Financial Officer possess the keys to this file cabinet. The Chief Accountant and Chief Financial Officer are now ensuring invoices, receipts, and other documentation support petty cash and travel advances and that requests have appropriate approvals.

In January 1998 the Commissioners appointed a new Executive Secretary and the position of Chief Financial Officer was filled in February 1998. The signature cards for the petty cash and travel advance fund accounts are being changed to reflect these organizational changes. One of the immediate duties the new Chief Financial Officer will assume will be to develop a comprehensive Accounting, Purchasing, and Payroll Policy and Procedure (APP) Manual for the agency. This manual will be implemented no later than September 1, 1998.

In addition, the Commission has implemented a checklist for this purpose which includes the initials of the person deleting check signing authority, return of keys, and deleting access to accounting systems.

Section 2-D:

Deposit Cash Receipts Within Three Business Days

The Commission is not complying with Government Code Section 404.094, which requires agencies to deposit funds in the Treasury no later than three business days after receipt. Eleven of 38 fiscal year 1997 cash receipts tested (29 percent) totaling \$704 were not deposited within the required three days. When cash receipts are not deposited within three days, the receipts are at greater risk for loss or abuse. It should be noted that all 38 of the cash receipts tested were classified with the correct object code.

Recommendation:

We recommend that the Commission make all deposits within the required three days or arrange for an extension as outlined in Government Code Section 404.094.

Management's Response:

The requirement that funds be deposited no later than the third business day after the date of receipt poses quite a challenge for smaller agencies such as the Racing Commission. The Commission makes deposits to the Treasury on Tuesdays and Thursdays prior to 2:00 p.m. Mail is received at the Commission on business days after 2:00 p.m.

The Occupational Licensing Department is responsible for processing Owner and Trainer license applications submitted by mail to the Commission's main office in Austin. Included with the application is a check for the license fee which cannot be deposited until the application is processed. In December 1997 this department processed 706 applications for an average of over 35 per work day. There are two employees in this department in Austin, one of whom is the department head. He has oversight responsibilities at the licensing offices at the racetracks which causes him to travel regularly. When checks accompanying applications arrive in Wednesday's mail, there is often not enough time for one or two persons to process up to 35 applications and meet the Thursday deposit. These checks are deposited on Tuesday and fail the 3 business-day requirement. There are also situations in which an application is not approved because additional information is required of the applicant. To provide a reasonable level of customer service, these checks will be held up to two weeks to allow the applicant to provide the additional information. This is a small percentage of the total checks deposited; however, these also fail the 3 business-day requirement.

The agency faces serious constraints regarding volume of license applications to be processed, the limited number of staff to process applications, timing of the receipt of mail and the processing of deposits, and customer service requirements. Given these constraints, the Commission is requesting an exemption to the 3 business-day requirement. If the exemption is approved, the Commission will provide written notice to the State Auditor and the Treasurer in accordance with V.T.C.S. Government Code

§404.094. If the exemption is not approved, the Commission will revise its procedures regarding timing of deposits and processing of license applications.

Section 2-E:

Improve Controls Over Disbursements and Purchasing

In our review of five randomly selected purchase voucher files for fiscal year 1998, we noted the following exceptions:

- One voucher (20 percent) totaling \$583 lacked separation of duties between the person receiving the goods and the person preparing the payment voucher.
- Three purchases (60 percent) totaling \$1,674 were paid without verification that the goods or services had been received.
- On one voucher (20 percent) totaling \$583, the warrant amount exceeded the invoiced amount for the purchases.
- Three vouchers (60 percent) totaling \$1,674 lacked the approval signature of the purchaser.

Separation of duties between the person who receives the goods and the person who prepares the payment voucher helps prevent fraud and abuse. The person preparing the payment voucher should verify that the goods were received prior to preparing the voucher. This ensures that payment is made only for goods and services that are actually received and meet management specifications. Checking invoices for mathematical accuracy ensures that the correct amount is being paid. Written approval of purchases by two separate individuals, the requestor and management, helps ensure that purchases are necessary and are made in accordance with need and management intent.

Recommendation:

We recommend that the Commission implement policies and procedures for its purchasing/disbursement process to ensure that:

- A separation of duties exists between the person receiving goods and the person preparing the payment voucher.
- Properly authorized purchase orders, invoices, and receiving reports are attached to payment vouchers.
- Mathematical calculations are made to verify accuracy of billings and payments.
- Approval signatures by both the requester and management are obtained on purchase orders prior to purchasing.

Management's Response:

The Commission has made all staff involved in purchasing aware of the fundamental principles of segregation of duties and requiring these procedures be followed to prevent fraud and abuse. The Accounting, Purchasing, and Payroll (APP) Manual being developed will incorporate segregation of duties in the required purchasing procedures.

The Commission currently requires all purchase orders to have the signatures of both the requestor and management. A separate individual from the requestor must acknowledge receipt of the goods. A separate individual from the requestor and the receiver of the goods prepares the payment voucher only after properly verifying the receipt of the goods. The Chief Financial Officer, Chief Accountant, or Deputy Director for Administration approves the payment voucher only after reviewing the supporting documentation and verifying the mathematical accuracy of the voucher. These procedures will ensure purchases are necessary and made in accordance with need and management intent.

Section 3:

Improve Controls Over Human Resource Management Systems

Although the Commission has established controls over many areas of human resource management, it should improve controls over the Fair Labor Standards Act (FLSA) and staff training. In addition, personnel policies and procedures relating to the Americans with Disabilities Act (ADA), grievances, and sexual harassment need to be revised.

Section 3-A:

Improve Procedures Over Fair Labor Standards Act (FLSA) Administration

The Commission has not developed or implemented adequate control procedures to ensure compliance with the Fair Labor Standards Act (FLSA). Management annually evaluates the current duties and responsibilities of each position to make a determination as to exempt or nonexempt status based on U.S. Department of Labor regulations. However, documentation has not been maintained to support the basis on which determinations are made.

An agency found to have made an incorrect determination is liable for back wages for a period of up to two years from the date of an employee's claim and up to three years if the agency is found to have willfully violated any of the provisions of FLSA.

Recommendation:

We recommend that the Commission:

- Continue its periodic review of the duties and responsibilities of all positions to ensure appropriate FLSA exempt or nonexempt status.
- Maintain documentation to support the determinations, including the basis of FLSA exempt determinations (executive, administrative, or professional) in the employee personnel files.

Management's Response:

The agency has developed a binder which contains a current job description for all positions, along with a determination as to each position's FLSA status. The agency will update the binder as job descriptions are revised and review the FLSA status on each revision. In addition, the agency will review all positions annually in September in conjunction with the classification review.

Section 3-B:

Ensure That All Staff Members Receive Adequate and Appropriate Training

The Commission does not have a formal system to identify training needs, document training received, or track employee training in any manner. As a result, the Commission is unable to ensure that all staff members receive adequate and appropriate training. A good overall training plan optimizes employee productivity, enhances professional and personal development, and assists the entity in accomplishing its goals and objectives.

Recommendation:

We recommend that the Commission develop an overall training plan which establishes:

- Both short- and long-term plans with clearly stated objectives and a direct relationship to the Commission's missions and goals
- A training and development budget designating the amount of time and funds to be spent on training
- A means of identifying and prioritizing training and development needs
- A method for evaluating the effectiveness of training and development programs
- A system for Commission-wide tracking of training taken by each employee

Management's Response:

The agency will develop an overall training plan that will include all the recommended elements. The agency has already implemented an annual training meeting for all agency employees, as well as semi-annual training meetings at each

operating racetrack. The overall training plan will be fully developed and implemented by January 1, 1999.

Section 3-C:

Improve Policies and Procedures Related to the Americans With Disabilities Act (ADA), Sexual Harassment, and Employee Grievances

The Commission has not developed adequate policies and procedures related to ADA, sexual harassment, and employee grievances. In our review of the personnel manual, we noted the following:

- The Commission has not documented ADA policies and procedures. The inclusion of an ADA policy would help ensure that staff members are knowledgeable of their rights and responsibilities under ADA.
- The Commission's grievance and sexual harassment procedures for handling informal complaints do not include a time line for the resolution. Without documented time lines for resolution, there is an increased risk that grievances will not be processed in a timely manner.

Recommendation:

We recommend that the Commission:

- Develop an ADA policy and complaint procedures which contain the name of the ADA coordinator, the time frames for filing and resolving a complaint, the list of components needed in the complaint resolution procedure, and a statement of non-retaliation.
- Add time lines for resolution to its grievance and sexual harassment procedures.

Management's Response:

In the January 1998 revision to the Employee Handbook, the agency included policies and procedures for implementing the ADA. The policy includes a description of the federal law, an employee's rights under that law, the Commission's commitment to make reasonable accommodations for disabled employees, and the procedure for requesting an accommodation.

The new Employee Handbook also revised the agency's grievance and sexual harassment procedures to include a time line for resolution.

Section 4:

Limit Access to Automated Information Systems

Our review of the Commission's automated systems identified weaknesses in the access controls over automated systems. These automated systems are essential to achieving the mission of the Commission and for managing its operations. Some employees have access to the automated licensing system that allows them to make changes to data for which they have no responsibility.

Additionally, we noted inadequate controls over access to the Uniform Statewide Accounting System (USAS):

- An ex-employee still has access rights under two different operator classes, one operator class under her married name and another under her maiden name.
- Four employees have the access level of Chief Accountant.
- Four employees have the accounting transaction code for inquiries, entries, and changes.

Limiting access to automated information systems based on the need to perform job functions helps protect against accidental and improper changes to the information system and helps ensure the integrity of the data.

Recommendation:

We recommend that the Commission:

- Review job duties on an annual basis to ensure that each person's access rights to automated information systems are based on need for that access.
- Implement termination procedures which include deleting access rights for staff members on their last day of employment.

Management's Response:

The agency will include in the annual review of job descriptions a review of each employee's access to automated information systems, including USAS as well as the agency's own comprehensive information system. The checklist that has been developed for terminated employees (See Section 2-C) includes deleting access rights to these systems.

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State Securities Board

State Securities Board

Detailed Issues and Recommendations

Overall Conclusion

The State Securities Board (Board) has established adequate management control systems to ensure that it performs its statutory functions. However, opportunities exist for the Board to improve controls over administrative procedures, management information systems, and human resources.

The Board is responsible for the regulation of securities sales and dealers, investment advisers, and agents who sell securities or render investment advice. It is also responsible for administering and enforcing the provisions contained in the Securities Act. In fiscal year 1997, the Board had 76 full-time equivalent employees and expenditures of \$3.86 million.

Section 1:

Formalize Administrative Procedures

Although the Board has policies for its core functions of licensing, registration, and enforcement, it lacks formal administrative procedures for key areas of operations to assist staff members in performing their duties. These key areas include the Board's core functions, management information systems, and human resources. Some staff members have developed their own procedures to assist in performing various functions. Less experienced personnel routinely rely on more experienced personnel to provide guidance in performing their duties. Formalized administrative procedures provide a structure to help ensure that daily operations are performed consistently and effectively. They are especially helpful if backup personnel are needed to perform key tasks.

We commend the Board for implementing financial procedures in response to a recommendation from the State Auditor's Office (SAO Report No. 90-017, *A Report on the Financial Related Audit of Regulatory Agencies*, December 1989) to develop policies and procedures for financial operations. A similar effort is now needed for other areas.

Recommendations:

We recommend that the Board formalize its administrative procedures for key areas of operations.

Management's Response:

We have begun to expand the Agency's formal procedures and will continue that effort during 1998.

Section 2:

Strengthen Controls Over Management Information Systems

In management information systems, we identified two areas in which controls could be strengthened: disaster recovery planning and operational information for governing board members.

Section 2-A:

Improve Disaster Recovery Plan for Local Area Network (LAN)

Although the Board has developed a written disaster recovery plan for data stored on its LAN system, the written plan lacks several important elements:

- Frequency and location of off-site storage
- Prioritized list of essential functions
- Names and current telephone numbers of the recovery team
- A description of the minimum configuration needed to operate, including processor, storage space, telecommunications, and equipment
- Annual testing of the system

The Board relies on its LAN system for storage of work-in-process word processing and other documents. In the event of a disaster affecting its LAN system, work productivity could be affected due to the need to reconstruct lost files.

Our review did not address the adequacy of recovery plans for data stored externally, which includes regulatory data, financial and accounting data, and human resource information.

Recommendation:

We recommend that the Board enhance its formal disaster recovery plan to comply with guidelines from the Department of Information Resources to ensure that it can operate effectively in case its primary LAN files are destroyed.

Management's Response:

We have begun to review the Agency's disaster recovery plan and will make appropriate adjustments by December 31, 1998.

Section 2-B:

Provide Operational Information to the Governing Board on a Regular Basis

Currently, management uses a form of exception reporting in providing information to the governing board. Although governing board members receive verbal and written information about the Board at meetings and in informal communications, they do not receive consistent operational information on a regular basis.

Because governing board members are accountable for providing oversight of the Board and its operations, it would be beneficial for them to receive periodic and regular reports on performance measures, financial matters, human resources, and other operational areas.

Recommendation:

We recommend that governing board members and executive staff identify beneficial operational information that governing board members should be provided on a regular basis. Executive staff should ensure that each governing board member receives it on a timely basis.

Management's Response:

We will work with the Board to identify any information that the members feel would be beneficial as periodic supplements to the regular exception reports, and responses to specific requests for information that they currently receive.

Section 3:

Improve Controls Over Human Resources

The Board does not have adequate controls in place to ensure that human resources are being effectively and efficiently used. We identified two areas needing improvement: the selection process and the performance appraisal system.

Section 3-A:

Improve Documentation of the Employee Selection Process

Documentation of the employee selection process should be improved. It is difficult to determine from Board records which applicants were interviewed for positions or the specific rationale for hiring decisions. Improved documentation would put the Board in a better position to defend its employment decisions in the event they are challenged.

In addition, the Board does not require employee references to be verified prior to job offers being made. Verifying employment and personal references should be a required

step in the hiring process. Without verifying references, the Board cannot be sure that the information contained in the employment application is correct. If hiring decisions are based on incorrect information, the Board cannot be sure that it hires qualified individuals to perform its critical functions.

Recommendations:

We recommend that the Board:

- Document and maintain all aspects of the hiring process, including the job posting, criteria for selection, a list of applicants, a list of applicants interviewed, and the reasons supporting the individual candidate selected.
- Verify employee references.

Management's Response:

We will review the Agency's hiring process and make appropriate adjustments by December 31, 1998.

Section 3-B:

Strengthen the Performance Appraisal System

Our review of the performance appraisal process identified two areas for improvement:

- The governing board does not perform a written annual appraisal of the Commissioner. Although the governing board meets with the Commissioner on a regular basis and provides informal feedback on her performance, the governing board has never provided her a formal performance appraisal. Annual formal performance appraisals of executive management provide timely feedback for performance improvement of both the individual and the organization. This is an important factor in keeping agencies on the strategic "right track."
- There is one performance appraisal form for all positions. This form includes dimensions which are subjective, non job-specific, and difficult to assess. In addition, performance appraisal guidelines do not provide a clear delineation between ratings or specific examples to assist evaluators in their appraisals. Examples of subjective, nonspecific performance dimensions include "cooperation with others" and "attitude toward new assignments." Without objective performance dimensions and examples to assist evaluators, it is difficult to ensure consistent and fair appraisals.

Recommendations:

We recommend:

- The governing board perform an annual formal performance appraisal of the Commissioner.
- The Board develop a performance appraisal form that is objective and has measurable and job-specific performance dimensions. In addition, examples should be provided so that the appraisal process is fair and consistently applied.

Management's Response:

We will review the Agency's performance appraisal process and make appropriate adjustments by December 31, 1998.

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Follow-Up Audits

Texas Animal Health Commission
 Summarized Audit Findings, Follow-Up Audit Results,
 and Management's Responses

Overall Conclusion

As of February 1998, the Texas Animal Health Commission (Commission) had implemented 20 recommendations, was in the process of implementing 13 recommendations, and had not yet implemented 6 recommendations from the *1997 Small Agency Management Control Audit* (SAO Report No. 97-086). Most of the recommendations not implemented involve management information systems.

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 554 Texas Animal Health Commission					
The Commission should: <ul style="list-style-type: none"> Establish a policy specifying when Commissioner approval of contracts is required. 		✓		The Commission has developed a policy specifying when Commissioner approval is required for contracts. However, the policy has not been formally approved and communicated to the staff.	<i>The contract purchasing policy was approved and formally distributed to staff on March 3, 1998.</i>

¹Key for Implementation Status

- I - Recommendation Implemented
- U - Implementation Underway
- N - Recommendation Not Implemented

² Management's responses were requested only for recommendations that were underway or not implemented.

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 554 Texas Animal Health Commission					
<ul style="list-style-type: none"> Approve contracts before the work begins on them. 			✓	<p>The Commission does not always approve contracts before the work begins on them. Per our testing we determined that 5 out of 10 (50 percent) of the contracts tested were not approved by the Commission prior to work beginning on the contract.</p>	<p><i>Four of the five contracts in question were interagency contracts which are initiated by the agency providing services. The Texas Animal Health Commission (TAHC) had very little control over when those contracts would be received. In the future TAHC will begin the renewal process earlier and will make every effort to obtain the contracts in advance. The fifth contract was an extension of a service contract which was originally purchased through General Service's open market bid along with the equipment which it services. The service contract has automatic renewals. In this particular case, the renewal agreement was signed after the date of the renewal period. In the future, the purchasing department will begin the renewal process earlier to ensure that signatures are obtained prior to commencement of the renewal period.</i></p>

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² Management's responses were requested only for recommendations that were underway or not implemented.

TEXAS ANIMAL HEALTH COMMISSION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 554 Texas Animal Health Commission					
<ul style="list-style-type: none"> • Improve communication between upper management and staff, and formally delegate responsibility for contracting. • Include essential information in contracts, including price, payment schedules, and deliverables. • Maintain supporting documentation showing that the vendor completed all contract requirements prior to payment. • Maintain documentation of how and why each contractor was selected. 	 ✓	✓		<p>The Commission has improved communication between upper management and staff by making it clear to employees that all purchases and contracts must go through the Purchasing Department. The Commission is in the process of developing a policy that outlines the purchasing and contracting process. A copy of the final policy was provided to the auditors prior to the pre-exit conference. However, the policy has not been formally approved and communicated to staff.</p> <p>All ten contracts included essential information, including price, payment schedules, and deliverables.</p> <p>All applicable contracts tested included supporting documentation that the vendor completed contract requirements prior to payment.</p> <p>The Commission maintained documentation of how and why each contractor was selected for 100 percent of the contracts tested.</p>	<p><i>The contract purchasing policy was approved and formally distributed to staff on March 3, 1998.</i></p>

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TEXAS ANIMAL HEALTH COMMISSION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 554 Texas Animal Health Commission					
<p>The Commission should:</p> <ul style="list-style-type: none"> Make all deposits within the required three days. Reconcile cash deposits to the receipt log in a timely manner. 	✓		✓	<p>The Commission is not in compliance with Section 404.094 of the Government Code which requires agencies to deposit all cash receipts in the Treasury within three business days after receipt. Six of the 12 receipts tested (50 percent) were not deposited within the required three days.</p> <p>The Commission is reconciling the cash receipts log with the cash deposits on a monthly basis.</p> <p>Additional Recommendation:</p> <p>The Commission does not reconcile cash deposits to the Uniform Statewide Accounting System (USAS) as statutorily required. The Commission has agreed to reconcile the cash deposits with USAS on a monthly basis.</p>	<p><i>The responsibility for depositing cash receipts has been reassigned to an employee in the Financial Services Division. Arrangements are being made with the Treasury section of the Comptroller's Office to ensure that deposits are made timely. Additionally, the cash receipts policy requires that deposits are made within 3 business days of receipt. Please note that TAHC handles less than \$30,000 each year in cash receipts.</i></p>
<p>The Commission should:</p> <ul style="list-style-type: none"> Ensure the proper handling of employee complaints by conducting investigations within the Commission's established time frames. 	✓			<p>The Commission is ensuring the proper handling of employee complaints by conducting investigations within the Commission's established time frames.</p>	

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TEXAS ANIMAL HEALTH COMMISSION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 554 Texas Animal Health Commission					
<ul style="list-style-type: none"> Maintain thorough, standardized documentation on the scope of all investigations. 	✓			The Commission maintains thorough, standardized documentation on the scope of all investigations.	
<p>The Commission should:</p> <ul style="list-style-type: none"> Maintain documentation to support Fair Labor Standards Act (FLSA) status determination for individual job positions and payroll actions. Correct the FLSA status for the eight employees that were entered incorrectly USPS. Ensure that merit raises and promotions are fairly and consistently awarded. <p>The Commission should:</p> <ul style="list-style-type: none"> Comply with state regulations by properly posting all externally-filled positions. Document criteria for employee selection and for all decisions in the recruitment and selection process. 	✓			<p>The Commission has developed documentation to support FLSA status for determining individual job positions and payroll actions. The Commission also designed and implemented a FLSA Eligibility Determination Form.</p> <p>The Commission has corrected FLSA status for the eight positions incorrectly entered in USPS.</p> <p>The Commission has developed policies and procedures to ensure that merit raises and promotions are fairly and consistently awarded.</p> <p>The Commission is in compliance with the state regulations by properly posting all externally filled positions.</p> <p>The Commission has documented and implemented criteria for the recruitment and selection process.</p>	

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TEXAS ANIMAL HEALTH COMMISSION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 554 Texas Animal Health Commission					
<ul style="list-style-type: none"> Obtain verification from an independent reviewer that established recruitment and selection procedures are followed. 	✓			The Commission has established and implemented an independent verification procedure. All position files tested except one (re-posted) went through the independent review.	
<p>The Commission should:</p> <ul style="list-style-type: none"> Ensure that all employees, including the Executive Director, receive an annual performance evaluation. 		✓		In our test of nine personnel files, only the Executive Director had not yet received a performance evaluation. However, the Commissioners established a committee in January 1998 to provide a performance evaluation for the Executive Director. The Commission should ensure that the Executive Director receives a timely formal performance evaluation during 1998 and each year thereafter.	<i>The performance evaluation of the Executive Director was completed by a committee composed of the Commissioners on February 18, 1998.</i>
<ul style="list-style-type: none"> Ensure that all salary actions are supported by a current performance evaluation. 	✓			All of the six personnel files tested contained the required performance information documentation to support salary actions as required by Commission policy.	

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Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 554 Texas Animal Health Commission					
<p>The Commission should:</p> <ul style="list-style-type: none"> Develop and/or implement policies and procedures for payroll, travel, cash disbursements, cash receipts, fixed assets, and purchasing. Communicate these policies to employees who perform these functions. Periodically review policies and procedures to ensure they are current and appropriate. 	✓	✓	✓	<p>The Commission has developed and implemented policies and procedures for the travel and purchasing functions.</p> <p>The Commission is in the process of developing policies and procedures for payroll, cash disbursements, and cash receipts.</p> <p>The Commission has not developed policies and procedures for fixed assets.</p> <p>The Commission has communicated the policies to employees for travel and purchasing functions.</p> <p>The Commission periodically reviews policies and procedures on an as-needed basis to ensure they are current and appropriate.</p>	<p><i>The payroll policy was approved and distributed on March 9, 1998. The cash disbursements policy was approved and distributed on February 9, 1998. The cash receipts policy was approved in September 1997 and distributed to all staff services and financial services employees. It is being revised and will be redistributed April 1998. The fixed assets policy is scheduled to be completed by fiscal year-end.</i></p> <p><i>(The response above also applies to this recommendation.)</i></p>
<p>The Commission should:</p> <ul style="list-style-type: none"> Establish policies and procedures that specify when budget issues require review and approval by the Commissioners. 	✓	✓	✓	<p>The Commission has developed draft policies and procedures that specify when budget issues require review and approval by the Commissioners. The Commissioners are scheduled to approve the draft policy at their April 1998 meeting.</p>	<p><i>The budget policy is currently being drafted. The projected completion date for the budget policy is April 30, 1998.</i></p>

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TEXAS ANIMAL HEALTH COMMISSION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 554 Texas Animal Health Commission					
<ul style="list-style-type: none"> Define the Commissioners' role in approving budget amendments, budget transfers, and the use of unbudgeted funds and unexpended balances. Provide budget and expenditure details to managers. 	✓			<p>The Commission has developed a draft policy which defines the Commissioners' role as reviewing and approving budget amendments, budget transfers, and the use of unbudgeted funds and unexpended balances concerning budget issues. The Commissioners are scheduled to approve the draft policy at their April 1998 meeting.</p> <p>The Commission is providing budget and expenditure details to managers. The Commission had previously provided the budget to managers but began providing expenditure details to managers in January 1998.</p>	<i>The budget policy is currently being drafted. The projected completion date for the budget policy is April 30, 1998.</i>
<ul style="list-style-type: none"> Implement a policy which specifies the materiality level at that a department must support budget variances. 		✓		<p>The Commission has developed a draft policy that specifies \$1,000 as the materiality level at which a department must support budget variances. The Commissioners are scheduled to approve the draft policy at their April 1998 meeting.</p>	<i>The budget policy is currently being drafted. The projected completion date for the budget policy is April 30, 1998.</i>

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Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 554 Texas Animal Health Commission					
<p>The Commission should:</p> <ul style="list-style-type: none"> Perform a risk analysis of its automated systems. Develop and implement a security plan that includes disaster recovery and specifies physical controls over computer operations. 		✓		<p>The Commission has held only one information- gathering meeting to discuss assessing risks associated with its automated information system. They have not yet performed a risk analysis of its automated systems.</p> <p>The Commission has taken actions to ensure the security of the computer room, developed an off-site data back-up system, and developed an inventory list. However, the Commission has not documented a security plan or a disaster recovery plan.</p>	<p><i>The agency is considering outsourcing the risk analysis and has contacted the Department of Information Resources (DIR) for assistance. We have begun the bid taking process and expect to have a risk analysis completed by the end of the fiscal year.</i></p> <p><i>The agency is considering outsourcing the development of a disaster recovery plan and the security plan, along with risk analysis and has contacted the Department of Information Resources (DIR) for assistance. We have begun the bid taking process and expect to have a security plan and a disaster recovery plan completed by the end of the fiscal year.</i></p>
<p>The Commission should:</p> <ul style="list-style-type: none"> Control access to databases through passwords and user identification. Develop a log to track the establishment and modification of user accounts. 	✓		✓	<p>The Commission has implemented passwords and user identification to control access to its databases.</p> <p>The Commission has not developed a log to track the establishment and modification of user accounts.</p>	<p><i>The Commission has developed a FileMaker Pro database that is used to track the establishment and modification to user accounts for all agency systems. The agency will work with the State Auditor's Office to ensure that this meets the requirements.</i></p>

¹Key for Implementation Status

- I - Recommendation Implemented
- U - Implementation Underway
- N - Recommendation Not Implemented

² Management's responses were requested only for recommendations that were underway or not implemented.

TEXAS ANIMAL HEALTH COMMISSION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 554 Texas Animal Health Commission					
<ul style="list-style-type: none"> Develop an automated log within newly developed systems that provides an audit trail for access and changes to data. 			✓	The Commission has not developed an automated log that provides an audit trail for access and changes to data.	<i>Two of the agency's newly created systems, SIROD and Permit Tracker, have automated logs to track both creation and last modified dates as well as the initials of the user who created or modified the record. The agency will work with the State Auditor's Office to ensure that these automated logs provide adequate audit trails for access and changes to data. The agency also has two other new systems, Inventory and Human Resources, which are small databases on FileMaker. We intend to incorporate an automated log to these systems by fiscal year-end.</i>
<ul style="list-style-type: none"> Develop and maintain security profiles for each employee. 			✓	The Commission has not developed an employee security profile for each employee. Currently, the Commission has plans to complete the security profiles by June 1998.	<i>The Commission is developing an Excel spreadsheet that tracks by position type, system access, and level of access. The Commission will then develop a FileMaker Pro database that will be used to track employee security profiles by June 1998. The Commission will also continue to investigate automated solutions available for the client server environment, but all such solutions are still in their infancy at this time.</i>

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TEXAS ANIMAL HEALTH COMMISSION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 554 Texas Animal Health Commission					
<ul style="list-style-type: none"> Consider the cost-benefit of preventing the computer programmer from accessing "live" programs and from adding, deleting, and replacing production programs. If implementing such controls is not cost-effective, the Commission should implement compensating controls to minimize the risks associated with such data. 		✓		The Commission performed a cost-benefit analysis of preventing the computer programmer from accessing "live" programs and decided that it would not be cost effective to implement such a control. The Commission needs to implement controls to compensate for the programmer having access to "live" programs. One such control would be to use and monitor an automated log that identifies who has accessed and changed production programs. In addition, the Commission needs to develop formal policies and procedures that include the controls over its management information systems.	<i>Controls will be implemented to ensure that the employee who creates a system is different from the employee who puts the system into production. The agency will request assistance from the State Auditor's Office to develop formal policies and procedures which include the controls over its management information systems.</i>
The Commission should review and modify security profiles to USAS and USPS to ensure that access levels are appropriate and that a proper segregation of duties is maintained.		✓		The Commission has reviewed and modified security profiles to USAS to ensure that access levels are appropriate and that proper segregation of duties is maintained. However, the Commission has not reviewed and modified security profiles to USPS.	<i>USPS profiles are currently under review. The security profiles will be modified to ensure that access levels are appropriate and that proper segregation of duties is maintained by May 1, 1998.</i>

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Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 554 Texas Animal Health Commission					
<p>The Commission should:</p> <ul style="list-style-type: none"> Maintain documentation on application design and development, programming standards, and standards and guidelines for data entry and data modification. Develop test and acceptance criteria for all applicable automation projects. 			<p>✓</p>	<p>The Commission has no documentation for application design and development, programming standards, and standards and guidelines for data entry and data modification.</p> <p>The Commission has developed test and acceptance criteria for all applicable automation projects. However, the criteria should be further enhanced to accommodate more complex automated applications.</p>	<p><i>The documentation for application design and development is DIR's "How to Manage an Information Technology Project," which has been adapted for the TAHC. Documentation for programming standards and standards and guidelines for data entry and data modification are scheduled to be developed over the next two years.</i></p> <p><i>The agency will request assistance from the State Auditor's Office in determining how to further enhance the test and acceptance criteria to accommodate more complex automated applications.</i></p>
<p>The Commission should:</p> <ul style="list-style-type: none"> Separate the functions of data entry and verification of data entered into the Automated Budget and Evaluation System for Texas (ABEST). Duties should also be separated so that persons with performance measure calculation responsibilities do not also extract supporting data from the related automated systems or perform related data entry. 	<p>✓</p>			<p>The Commission has separated the functions of data entry and verification of data entered into ABEST. Persons with performance measures calculation responsibilities do not also extract supporting data from the related automated systems or perform related data entry.</p>	

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TEXAS ANIMAL HEALTH COMMISSION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 554 Texas Animal Health Commission					
<ul style="list-style-type: none"> Establish formal policies and procedures for data entry and related corrections into ABEST. 	✓			Regarding data entry, the Commission uses the Performance Measure Reporting for State Agencies booklet provided by the Legislative Budget Board as its policies and procedures. Regarding corrections into ABEST, the Commission has established its own formal policies and procedures.	
<ul style="list-style-type: none"> Keep documentation to support performance measure calculations and the computer code that generates the supporting reports. 	✓			The Commission keeps documentation to support performance measure calculations and the computer code that generates the supporting reports.	
<ul style="list-style-type: none"> Ensure that any errors identified in previous performance measure data are corrected in ABEST within a reasonable time. 	✓			The Commission has established controls to ensure that any errors identified in previous performance measure data are corrected in ABEST within a reasonable time.	

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Texas Commission on the Arts
Summarized Audit Findings, Follow-Up Audit Results,
and Management's Responses

Overall Conclusion

As of November 1997, the Texas Commission on the Arts (Commission) had implemented four recommendations, was in the process of implementing three recommendations, and had not yet implemented two recommendations from the *1996 Small Agency Management Control Audit* (SAO Report No. 97-013, November 1996). The Commission should enhance controls over procurement and risk assessment for on-site auditing of grant recipients.

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 813 Texas Commission on the Arts					
<p>The Commission should:</p> <ul style="list-style-type: none"> Develop and implement an on-site grant monitoring program to ensure that grant funds are properly expended and accounted for in accordance with grant requirements. 		✓		<p>At the time of our follow-up audit, the Commission was scheduled to begin its on-site grant monitoring program in February 1998. As a result of our review, we noted several weaknesses in the on-site and desk audit grant monitoring processes. The Commission has not developed a risk assessment process to select programs for on-site monitoring.</p>	<p><i>The Commission has implemented an on-site monitoring program as of February 23, 1998. The on-site monitoring program is part of the Commission's strategic performance measures that will include approximately 20 visits per year using the formal risk management procedures that will be in place.</i></p>
<ul style="list-style-type: none"> Make it a standard practice to review grant records and expenditures during site visits. 		✓		<p>At the time of our follow-up audit, the Commission was scheduled to begin its on-site grant monitoring program in February 1998. Per our review, Commission has not yet made it a standard practice to review grant records and expenditures during site visits.</p>	<p><i>As of February 23, 1998 the Commission had begun strategic visits to agencies that have received grant funds. Expenditure invoices are checked to verify correct spending. The Commission has implemented this procedure as part of the agency's strategic responses to improve the on-site monitoring of grantees. A minimum of 20 grantees will be audited per year.</i></p>

¹Key for Implementation Status

- I - Recommendation Implemented
- U - Implementation Underway
- N - Recommendation Not Implemented

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TEXAS COMMISSION ON THE ARTS
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 813 Texas Commission on the Arts					
<ul style="list-style-type: none"> Base frequency of monitoring and the scope of work performed during visits on a formal risk assessment process. 			✓	<p>The Commission has not implemented a formal risk assessment process for on-site monitoring. Instead, the Commission selects programs for on-site monitoring by program type, such as a service organization or from a specific discipline.</p> <p>The Commission should select which programs to visit using predetermined criteria based on a risk analysis. Possible risk factors would include the size of the grants, prior material audit findings, length of time since the last audit, and issues identified in desk reviews. Information on these factors exists, but the Commission does not use them to identify high-risk recipients for on-site monitoring.</p>	<p><i>The Commission has requested the assistance of the State Auditor's Office in developing a risk assessment tool for the on-site monitoring of grant recipients.</i></p>

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² Management's responses were requested only for recommendations that were underway or not implemented.

TEXAS COMMISSION ON THE ARTS
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 813 Texas Commission on the Arts					
<p>The Commission should:</p> <ul style="list-style-type: none"> Establish a written policy that disallows employees from accepting honoraria while on state time and requires employees to take a leave of absence to make presentations unrelated to their employment. Establish a written policy which disallows employees from submitting travel vouchers for engagements unrelated to their employment, even for cases in which the employee later reimburses the State. 	✓			<p>The Commission has developed a written policy that disallows employees from accepting honoraria while on state time and requires employees to take a leave of absence to make presentations unrelated to their employment.</p> <p>While our testing revealed that travel vouchers are thoroughly and correctly done, at the time of our review, the Commission had not yet fully developed a written policy which disallows employees from submitting travel vouchers for engagements unrelated to their employment.</p>	<p><i>While policies are in place, the Commission agrees the language in the agency's personnel manual needed improvement. With the assistance of the State Auditor's Office, the Commission has changed the wording to further clarify the disallowing of employees from submitting travel vouchers for engagements not related to employment.</i></p>

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TEXAS COMMISSION ON THE ARTS
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 813 Texas Commission on the Arts					
<ul style="list-style-type: none"> Comply with its internal policies and procedures in obtaining competitive bids. 			✓	<p>The Commission still does not follow its own or the State's purchasing requirements (<i>General Services Commission's Procurement Manual</i> and Government Code Section 2156.121). In our test of 12 fiscal year 1997 purchase vouchers which required bids, 7 (58 percent) were not in compliance with state requirements for obtaining competitive bids.</p> <p>Furthermore, none of the purchase vouchers tested had an approval signature, and many were improperly completed. For example:</p> <ul style="list-style-type: none"> The majority of vouchers did not identify the fund from which the money was deducted. Exempt purchases for professional services and educational purposes did not indicate a legal cite on the purchase voucher. 	<p><i>The Commission has enhanced controls to ensure that internal procedures are being followed. The Commission has centralized its purchasing functions. Purchase vouchers have also been automated to where all the necessary information (fund, legal cite) will be identified.</i></p>
<p>The Commission should thoroughly review the annual financial report to determine if it is accurate, complete, and in compliance with the Comptroller of Public Accounts' reporting requirements.</p>	✓			<p>The Office of the Comptroller of Public Accounts concluded that the Commission's fiscal year 1997 annual financial report is generally in compliance with Comptroller requirements. We accept this conclusion.</p>	

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TEXAS COMMISSION ON THE ARTS
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 813 Texas Commission on the Arts					
The Commission should: <ul style="list-style-type: none"> • Ensure that all personnel files include documentation and approval for all personnel actions. • Ensure employees receive a written performance evaluation at least once a year. 	✓			In our test of nine personnel files, all contained authorized personnel action forms.	
	✓			Commission personnel annually receive a written performance evaluation.	

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Texas Commission for the Deaf and Hard of Hearing
Summarized Audit Findings, Follow-Up Audit Results,
and Management's Responses

Overall Conclusion

As of January 1998 the Texas Commission for the Deaf and Hard of Hearing (Commission) had fully implemented 16 recommendations, had partially implemented 5 recommendations, and had not yet implemented 1 from the *1997 Small Agency Management Control Audit* (SAO Report No. 97-086, August 1997).

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 335 Texas Commission for the Deaf and Hard of Hearing					
<p>We recommend that the Commission establish a formal audit plan to provide oversight of the 23 councils with which it contracts for program services. At a minimum, the audit plan should have the following provisions:</p> <ul style="list-style-type: none"> • A methodology for assessing risk based on objective criteria • A schedule for site visits based on risk and date of last site visit 	✓			<p>The Commission has developed a methodology for assessing risk of the councils.</p> <p>The Commission has implemented an audit schedule based on timing, lack of clarity and correctness of submitted paperwork, and inconsistencies of supporting documents. The schedule covers January 1997 through April 1998.</p>	

¹Key for Implementation Status

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Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 335 Texas Commission for the Deaf and Hard of Hearing					
<ul style="list-style-type: none"> The procedures to be followed when performing a site visit, including a review of financial records (especially support for expenditures) and program activities A records retention schedule of the documentation to be maintained relating to the results of site visits and field reviews 	✓			<p>The Commission has developed procedures. An evaluation form has been completed to include procedures, comments, necessary corrective action, and a follow-up action date.</p> <p>Although the Commission has a records retention schedule, it does not specifically state what items should be retained for each council, such as results of site visits and field reviews.</p>	<p><i>The Commission's records retention schedule includes a record series title, Local Council/ Contractors' Information Files. In the remarks area for this item it is stated "Required information on service provider councils holding current contract with agency." The Commission has interpreted this item to include all information related to council contracts including site visits and field reviews. However, the Commission will modify the retention schedule to include a separate item for site visits and field reviews.</i></p>
<p>We recommend that the Commission:</p> <ul style="list-style-type: none"> Develop a system for selecting the best contractors. At a minimum, this system should include objective criteria for selecting contractors. The Commission should retain all Requests for Proposals and documentation that supports why each contractor was selected. 	✓			<p>The Commission has developed a system for selecting contractors based on four objective criteria: need, qualifications, program delivery, and ability to serve the target population. The Commission retains files on all Requests for Proposals. Each proposal file contains a score sheet and a detailed explanation of the score given.</p>	

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Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 335 Texas Commission for the Deaf and Hard of Hearing					
<ul style="list-style-type: none"> Develop a two-year contract period in alignment with agency rules. 	✓			Contracts are in alignment with agency rules. The Commission changed the wording of agency rules from "contracts will be awarded for two fiscal years" to "contracts may be awarded for two fiscal years."	
<p>We recommend that the Commission develop and document:</p> <ul style="list-style-type: none"> A formula for equitably allocating funds to the councils A reimbursement schedule for interpreters that distinguishes between the levels of certification and is based on the cost of services 	✓		✓	<p>The Commission has developed and documented a formula to equitably allocate funds to the councils based upon populations of current or potential clients.</p> <p>The Commission will discuss a reimbursement schedule for interpreters at the training for regional contractors to be held February 23-24, 1998.</p>	<p><i>A contractors meeting was held on February 23-24, in which representatives of interpreter organizations also participated. The issue of re-establishing a stratified rate of pay by skill level was unanimously opposed by the group. They want to retain the current "unit of service" with a maximum flat rate. This issue will require additional research and public hearings to ensure that the best system for the state is developed.</i></p>

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Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 335 Texas Commission for the Deaf and Hard of Hearing					
We recommend that the Commission provide budget information to each program manager on a monthly basis to ensure that each program manager has the necessary information to effectively manage his or her area.	✓			The Commission provides program managers with a monthly report showing the approved budget, general revenue, appropriated receipts, amount paid, paid difference, amount encumbered, and encumbered difference. The Commission also provides program managers with an encumbrance list which details the vendor name, amount encumbered, amount paid, and amount remaining.	
We recommend that the Commission implement the following controls over the licensing and examination functions: <ul style="list-style-type: none"> Develop a plan for the creation of multiple videos for each certification level so that (1) applicants do not know ahead of time what is on the exam, and (2) there are no delays in the examination process. 	✓			The Commission has created two versions of videos for certification levels. Candidates are only allowed to take the interpreter exams twice a year. By creating multiple videos for each certification level, applicants do not know ahead of time what is on the exam (at least in one year) and there are no delays in the examination process.	

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Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 335 Texas Commission for the Deaf and Hard of Hearing					
<ul style="list-style-type: none"> Require exam candidates to pay a non-refundable fee when signing up for the exam in order to discourage non-serious candidates and eliminate the waiting list. 	✓			The Commission is now collecting non-refundable application and evaluation fees as recommended. The Commission implemented a policy change requiring applicants to submit both the application and evaluation fees at the time they submit their testing application.	<p><i>The Commission will work with the TGSLC and TCB's Information Resources Department to prepare disks in the format required by TGSLC. The Commission will contact TGSLC by April 1 to begin steps to prepare a readable disk.</i></p>
<ul style="list-style-type: none"> Begin submitting information to the Texas Guaranteed Student Loan Corporation (TGSLC) in a usable format in order to receive and use current information from the TGLSC on interpreters who should not be licensed. 		✓		The Commission emphasized in its <i>Board for Evaluation of Interpreters</i> January newsletter that it must submit to the TGSLC information regarding licensees on an annual basis. The Commission re-submitted the names of licensees to TGSLC the week of January 23, 1998. TGSLC programmers have still not been able to read the disk sent from the Commission.	

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Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 335 Texas Commission for the Deaf and Hard of Hearing					
<p>We recommend that the Commission:</p> <ul style="list-style-type: none"> Ensure that two employees open the mail, with one of them preparing the deposit slip and the other delivering the receipts to the Commission for the Blind. <p><i>[Auditor Note: The Commission for the Deaf and Hard of Hearing has contracted with the Commission for the Blind to provide accounting services.]</i></p> <ul style="list-style-type: none"> Consider implementing procedures to ensure that most fee receipts go directly to the Comptroller of Public Accounts' lock box. 	✓			<p>The Commission has ensured that two employees open the mail, with one of them preparing the log document and the other delivering the receipts to the Commission for the Blind.</p>	
	✓			<p>The Commission has implemented procedures to ensure that most fee receipts go directly to the Comptroller of Public Accounts' lock box. The Board for Evaluation of Interpreters application now contains the Comptroller lock box address.</p>	

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Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 335 Texas Commission for the Deaf and Hard of Hearing					
<ul style="list-style-type: none"> Perform reconciliations between the number of licenses issued and the revenues received and between examination fees and the number of people taking an exam. These reconciliations should be prepared on a regular basis by an employee who is not responsible for handling cash receipts. Develop procedures to reconcile its internal records to records at the Commission for the Blind. 	✓			<p>Reconciliations are being performed by an employee not responsible for handling cash receipts. The Commission's licensing database has been updated to better track information and to perform reconciliations between the number of licenses issued and the revenues received, and between examination fees and the number of people taking the exam.</p> <p>While reconciliations are reportedly performed at least quarterly, the Commission has not documented these actions or developed procedures to reconcile internal records to records at the Commission for the Blind (TCB). The Commission needs to train staff on performing reconciliations.</p>	<p><i>TCB will perform reconciliations for the Commission under the administrative support services contract. The Commission will work with TCB in the development of procedures for this task. Procedures will be developed by June 1, 1998.</i></p>

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Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 335 Texas Commission for the Deaf and Hard of Hearing					
<p>We recommend that the Commission enhance controls over fixed assets by:</p> <ul style="list-style-type: none"> • Having two people perform an annual inventory • Having employees sign for all property in their possession • Performing monthly reconciliations to State Property Accounting (SPA) records 	✓			<p>The Commission has assigned two people to perform an annual inventory. The inventory conducted in August 1997 was signed by two individuals.</p> <p>The Commission requires employees to sign for all state property in their possession.</p> <p>The Commission has contracted with the Commission for the Blind to perform monthly reconciliations to SPA.</p>	

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Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 335 Texas Commission for the Deaf and Hard of Hearing					
<p>We recommend that the Commission:</p> <ul style="list-style-type: none"> Develop an understanding of its information needs and evaluate and analyze operational information on an ongoing basis. Provide complete, accurate, and timely information to the Commissioners and management so that they can provide effective oversight of the Commission. Establish password security over licensing files. 		✓		<p>The Commission plans to create a template for a quarterly program operation report for statistical information. This template will assist the Commission in evaluating and analyzing operational information on an ongoing basis.</p> <p>After the template described above is developed, reports will be provided to Commissioners on a quarterly basis. For the January 1998 Commissioners' meeting, the Commission prepared spreadsheets on certain contractor programs for fiscal year 1997.</p> <p>The Commission has implemented password security over licensing files.</p>	<p><i>A template will be agreed upon during the next Commission meeting which is scheduled for May 29, 1998.</i></p> <p><i>The Commission will send quarterly reports before each Commission meeting. The reports will contain information from the quarter that ended at least 30 days prior to the date the report is sent to Commissioners and Staff.</i></p>

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Texas Commission on Fire Protection
 Summarized Audit Findings, Follow-Up Audit Results,
 and Management's Responses

Overall Conclusion

As of January 1998, the Texas Commission on Fire Protection (Commission) had implemented 20 recommendations, was in the process of implementing 9 recommendations, and had not implemented 4 recommendations. These recommendations are from the *1997 Small Agency Management Control Audit (SAO Report No. 97-086, August 1997)* and agency assistance provided by the State Auditor's Office in November 1997. The Commission still needs to enhance its management information system.

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 411 Texas Commission on Fire Protection					
The Commission should: <ul style="list-style-type: none"> Implement a policy that allocates expenditures to the programs which the costs were actually incurred. 	✓			The Commission has implemented a policy that allocates expenditures to the program in which costs were incurred. The next step for the Commission is to document the detailed, step-by-step procedures used to accomplish this process. Detailed procedures help to ensure that job duties are performed correctly and consistently even when performed by back-up personnel.	<i>The agency will implement this additional recommendation with a target date of September 1, 1998 for completion.</i>
<ul style="list-style-type: none"> Maintain documentation for all allocations. 	✓			According to our testing of 11 fiscal year 1998 expenditures, no exceptions were noted. It appears that expenditures are appropriately allocated to the appropriate program and support documentation is being maintained.	

¹Key for Implementation Status

- I - Recommendation Implemented
- U - Implementation Underway
- N - Recommendation Not Implemented

² Management's responses were requested only for recommendations that were underway or not implemented.

TEXAS COMMISSION ON FIRE PROTECTION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 411 Texas Commission on Fire Protection					
<p>We recommend that:</p> <ul style="list-style-type: none"> The Commission ensure that Commissioners' travel vouchers reflect actual costs. The Commission ensure that Commissioners sign their travel vouchers after they verify that requested reimbursements represent actual costs incurred while conducting Commission business. <p>The Commission should perform availability of funds analyses in a timely manner and should follow existing control procedures for requisitions.</p>	<p>✓</p> <p>✓</p> <p>✓</p>			<p>According to our testing of six fiscal year 1998 travel vouchers, it appears that Commissioners' travel vouchers consistently reflect actual costs.</p> <p>The Commission has implemented controls which help ensure that Commissioners sign their travel vouchers after they verify that the requested reimbursements represent actual costs incurred while conducting Commission business.</p> <p>According to our review, the Commission performs funds availability analyses on a monthly basis.</p> <p>Per our review, the Commission follows existing control procedures for requisitions. We recommend that the Commission further improve the process by developing detailed written procedures for performing fund availability analyses and the related requisition process.</p>	<p><i>The agency will implement this recommendation with a target day of September 1, 1998 for completion.</i></p>

¹Key for Implementation Status

- I - Recommendation Implemented
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Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 411 Texas Commission on Fire Protection					
<p>The Commission should:</p> <ul style="list-style-type: none"> Continue providing budget information to each program manager on a monthly basis. 	✓			<p>The Commission has implemented a policy of providing periodic budget information to program managers. This policy provides for a quarterly report for the first quarter of the fiscal year and monthly reports thereafter. Per our review, the Commission provided budget information to program managers in December for the first quarter of fiscal year 1998 as required by agency policy.</p>	
<ul style="list-style-type: none"> Ensure that each budget manager compares summary and detailed financial reports to verify that they accurately reflect program expenditures. 		✓		<p>The Commission is currently in the process of providing training to help ensure that program managers understand how and why it is important to compare summary and detailed financial reports.</p>	<p><i>Training of program managers on the use of summary and detailed financial reports is ongoing. To date, the agency has conducted three training sessions. All managers have attended at least one session. The agency intends to continue conducting these training sessions on a regular basis for the remainder of the fiscal year.</i></p> <p><i>In addition, the agency is redesigning its budgeting programs to provide on-demand reporting for program managers. Program managers have been asked to participate in the program design to help ensure that their information needs are met.</i></p>

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TEXAS COMMISSION ON FIRE PROTECTION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 411 Texas Commission on Fire Protection					
<ul style="list-style-type: none"> Ensure that key managers develop an understanding of the annual financial report and other financial documents, so that they can better monitor their budgets. Establish detailed policies and procedures over the budgeting process. 	✓	✓		<p>The Commission is currently in the process of providing training to help ensure that program managers develop an understanding of the annual financial report and other financial documents.</p> <p>The Commission has developed detailed policies and procedures over the budgeting process.</p>	<i>(The previous response also applies to this recommendation.)</i>

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Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 411 Texas Commission on Fire Protection					
<ul style="list-style-type: none"> • Maintain detailed support for all amounts in: <ul style="list-style-type: none"> (1) the Legislative Appropriations Request (LAR) (2) the operating budget. 	✓		✓*	<p>* (1) The Commission has not maintained detailed support for the LAR; however, it plans to begin maintaining adequate back-up documentation for the fiscal year 2000-2001 biennium. Due to the fact that the audit report with the original recommendation was not released until August 1997, the Commission did not have ample time to maintain documentation for the current biennium's LAR.</p> <p>(2) It appears that detailed support documentation for the operating budget exists within the Commission; however, it is not all in one place. We recommend that the Commission maintain copies of supporting documentation for the operating budget with the operating budget worksheets.</p>	<p><i>As noted in this report, the LAR for the current biennium was prepared prior to the 1997 audit report, and the agency had no way to address this recommendation for the previous biennium. However, in accordance with this recommendation, the agency is committed to maintaining detailed support for the fiscal year 2000-2001 LAR when it is prepared.</i></p> <p><i>The agency will implement this recommendation immediately.</i></p>

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TEXAS COMMISSION ON FIRE PROTECTION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 411 Texas Commission on Fire Protection					
<ul style="list-style-type: none"> Reconcile its internal accounting system to the Union Statewide Accounting System (USAS) on a monthly basis. 	✓			The Commission is reconciling the internal accounting system to USAS on a monthly basis.	
<p>The Commission should:</p> <ul style="list-style-type: none"> Develop and implement a formal policy regarding telecommuting and communicate it to every employee. Ensure that records and summary reports are kept that document the specific days and hours worked at home by each employee. The Executive Director should review the summary reports regularly to ensure that all employees are receiving sufficient supervision. 	✓			<p>The Commission has developed and implemented a formal policy regarding telecommuting.</p> <p>The Commission appears to have implemented adequate controls to ensure that days and hours worked at home by each employee are documented and monitored to ensure that employees receive proper supervision. However, no Commission employees are currently working at home.</p>	
<p>The Commission should follow the existing policy requiring annual performance evaluations and should maintain supporting documentation for all personnel actions.</p>	✓			Per our testing of 11 employee files, the Commission followed the policy requiring annual performance evaluations and maintained supporting documentation for all personnel actions.	

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Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 411 Texas Commission on Fire Protection					
<p>The Commission should improve its overall plan for training, including establishment of:</p> <ul style="list-style-type: none"> • Short- and long-term plans with clearly stated objectives and a direct relationship to the Commission's mission and goals • A training and development budget • A means of identifying and prioritizing needs 	✓	✓	✓	<p>Although the Commission has conducted several meetings to discuss its training needs, it is in the process of developing short-term and long-term plans with clearly stated objectives and a direct relationship to the Commission's mission and goals.</p> <p>The Commission has developed an appropriate training budget for fiscal year 1998.</p> <p>The Commission has established a means of identifying and prioritizing training needs, primarily through feedback from program managers.</p>	<p><i>The overall training plan, which will follow these recommendations, will be completed by the end of April 1998. The agency is currently developing an employee task group to review the draft training plan and make recommendations to management regarding the final draft and implementation.</i></p>

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TEXAS COMMISSION ON FIRE PROTECTION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 411 Texas Commission on Fire Protection					
<ul style="list-style-type: none"> A method for evaluating effectiveness 		✓		The Commission is currently conducting meetings to determine how to establish a method for evaluating training effectiveness.	<p><i>As noted above, the Commission is developing an employee task group to review and make recommendations regarding the training plan. One of the employee group's tasks will be to develop an evaluation mechanism. The targeted completion date is the end of April 1998.</i></p>
<ul style="list-style-type: none"> A system for tracking training by employees 	✓			The Commission has developed and implemented a training request form which, when completed by the employee and approved by the division director, is entered in a database which maintains an employee training history and cost history.	
<p>The Commission should:</p> <ul style="list-style-type: none"> Ensure preparation of a detailed computer needs analysis. 		✓		The Commission's programmer developed a needs analysis for the Commission's computer needs. However, he developed it without sufficient input from other personnel, a vital component of a needs analysis. We recommend that the Commission ensure that feedback is obtained from personnel from each division as part of the needs analysis.	<p><i>The Commission is currently in the process of hiring a new director for the information services division. Pending the ability of the agency to attract and retain a suitable candidate, the agency intends to implement the recommendations in this report in accordance with the timelines noted below.</i></p> <p><i>The agency agrees with and will implement the recommendation to obtain feedback from staff as part of the needs analysis, with a targeted completion date of September 1, 1998.</i></p>

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TEXAS COMMISSION ON FIRE PROTECTION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 411 Texas Commission on Fire Protection					
<ul style="list-style-type: none"> Enhance the disaster recovery plan. 			✓	<p>The disaster recovery plan still lacks several essential elements that would help the Commission recover its automated records should a disaster occur. Specifically, the plan lacks a formal arrangement or contract with a vendor regarding software and hardware, a description of equipment needed for recovery, the cost of support, physical facilities or hot sites to be used, and the lines and data to restart operations.</p>	<p><i>The agency will give high priority to enhancing its disaster recovery plan in accordance with the auditor's recommendations, with a targeted completion date of September 1, 1998. Furthermore, the agency is grateful to the auditor's office for providing a great deal of additional information and assistance in designing the agency's disaster recovery plan.</i></p>
<ul style="list-style-type: none"> Purchase and use a fireproof box for storage of daily backup tapes. Ensure regular backup of budget information is performed. 	✓			<p>The Commission purchased and uses a fireproof box for storage of backup tapes. However, the process could be improved by keeping a log of when backups are performed and by whom.</p> <p>Although the Commission is backing up budget information when changes are made to the budget, this financial information is not stored on the local area network (LAN). We recommend that the budget information be on the LAN with access given only to authorized personnel. As a result, budget information may be backed up daily without duplication of effort. Under the current process, a greater opportunity for the loss of important data continues to exist.</p>	<p><i>The agency plans to transfer the budget information to the LAN no later than June 30, 1998. In conjunction with the transfer, backup procedures will be implemented in accordance with these recommendations.</i></p>

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TEXAS COMMISSION ON FIRE PROTECTION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 411 Texas Commission on Fire Protection					
				Additional Recommendation: The Commission does not have formal written procedures for backing up tapes. The Commission should develop and implement formal policies and procedures for regular backup of data and make them accessible to authorized personnel to ensure against the loss of important data.	
The Commission should strengthen controls over performance measures reporting: <ul style="list-style-type: none"> • Maintain supporting documentation for each measure reported. • Ensure segregation of duties over input, editing, and submission of data. • Establish a method for employees to review their work prior to submission of data. 	✓ ✓ ✓			The Commission has maintained adequate support for the first quarter performance measure report for fiscal year 1998. Controls are in place to help ensure segregation of duties over input, editing, and submission of data. The Commission has established a method to review data for accuracy before submission.	

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TEXAS COMMISSION ON FIRE PROTECTION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 411 Texas Commission on Fire Protection					
<p>Additional recommendations resulted from an agency assistance project as detailed in the November 14, 1997, letter and attachments from the State Auditor's Office to the Executive Director.</p> <p>The Commission should develop, document, implement, and enforce written policies and procedures that provide for:</p> <ul style="list-style-type: none"> • Written authorization for all receipts, issuances, transfers and withdrawals of fixed assets 	✓			<p>We commend the Commission for its progress toward implementing the recommendations detailed in the November 14, 1997, letter from the State Auditor's Office.</p> <p>The Commission has written authorization for all receipts, issuance, transfer, and withdrawals of fixed assets. Assets are regularly reconciled to the State Property Accounting (SPA) system as required.</p>	<p><i>The commission agrees with and will implement all of the auditor's recommendations regarding fixed asset management and tracking by April 1, 1998.</i></p>
<ul style="list-style-type: none"> • Use of multi-part accountability forms to facilitate tracking of the location and custody of assets 		✓		<p>The Commission has not yet implemented the use of a multi-part form to facilitate tracking of the location and custody of assets. However, a test was conducted on a sample of 10 assets, and all assets tested were traceable to location and custody of assets.</p>	

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TEXAS COMMISSION ON FIRE PROTECTION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 411 Texas Commission on Fire Protection					
<ul style="list-style-type: none"> • Training of all supervisors on the Commission's policies and procedures for the accountability of property • Communication of policies and procedures to all employees within the organization 			<ul style="list-style-type: none"> ✓ ✓ 	<p>The Commission has not provided training to supervisors regarding the Commission's policies and procedures for the accountability of assets. However, the Commission is making plans to train supervisors before April 1, 1998.</p> <p>The Commission plans to communicate the policies and procedures to all employees within the organization before April 1, 1998.</p>	
<ul style="list-style-type: none"> • Assurance that policies and procedures are carried out as intended and that corrective actions are taken when needed • Periodic reviews of established policies and procedures to determine whether they are still applicable and necessary 		<ul style="list-style-type: none"> ✓ ✓ 		<p>The Commission has developed controls to ensure policies and procedures are carried out as intended and that corrective action is taken when needed. However, these controls have not yet been implemented.</p> <p>The Commission has developed controls to ensure established internal policies and procedures are reviewed annually or as needed. In addition, the Commission reviews internal fixed-asset policies and procedures when the Office of the Comptroller of Public Accounts updates the State Property Accounting policies. However, these controls have not yet been implemented.</p>	

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Texas Funeral Service Commission

Summarized Audit Findings, Follow-Up Audit Results, and Management's Responses

Overall Conclusion

During our follow-up review at the Texas Funeral Service Commission (Commission), we identified Commissioners' actions that did not comply with laws and Commission policies. These actions could indicate, or lead to the perception of, a lack of independence and a lack of commitment to maintaining adequate controls over operations.

On a more positive note, the Commission has implemented 15 of 17 recommendations from the *1997 Small Agency Management Control Audit* (SAO Report No. 97-086, August 1997) and the *1995 Small Agency Management Control Audit* (SAO Report No. 96-029, December 1995). We commend the Commission for setting up several committees to quickly implement the recommendations.

Section 1:

Improve Board Compliance With Laws and Policies

During our follow-up review, we identified Commissioners' actions that did not comply with laws and Commission policies. These actions can negatively impact the perception of the governing board's independence and commitment to maintaining adequate controls over operations. Governing bodies of organizations have an obligation to set a high standard by closely following policies and laws.

- The Commissioners overlooked internal policies for reciprocal license applicants which resulted in inconsistent treatment of non-qualifying applicants. Commission rules do not allow Commissioner deliberation on issues related to reciprocal applicants. However, the Commissioners deliberated and took action on some cases in which applicants had been mistakenly licensed through reciprocity.
- The Commissioners refunded license fees for reciprocity applicants that had used their licenses for approximately 10 months. This action could be perceived as granting favored treatment to selected applicants. The Commissioners do not have clear policies on refund amounts and timing.
- The Commissioners neglected provisions of Title 22 of the Administrative Code, Part X, Section 203.6(j), which requires applicants to complete a minimum of 10 months and 60 cases in a provisional licensing program (PLP) before being granted an exit interview before at least one Commissioner. The purpose of exit interviews is for applicants to demonstrate proficiency related to the duties of a funeral director and/or embalmer. However, on January 28, 1998, the Commissioners conducted an exit interview with an applicant who had not met the minimum requirements. By neglecting requirements, the Commissioners cannot ensure that only qualified applicants receive interviews.

Circumventing established criteria without good cause could be perceived as favored treatment to selected applicants.

- A Commissioner who filed a complaint on a licensee regarding deceptive advertising also participated in the Complaint Review Committee (CRC) but did not vote. The Commissioner filing the complaint and the defendant operate funeral homes in the same area of competition. Although it is appropriate for a Commissioner to participate in the complaint process, the Commission should develop policies related to how Commissioners can participate to avoid perceptions of conflicts of interest.
- On January 28, 1998, the Commissioners held a meeting which did not meet the criteria for being excluded from the Open Meetings Act (Government Code, Section 551). The Commissioners need to ensure compliance with the Open Meetings Act for all meetings that are not excluded under law.

Recommendation:

We recommend that the Commissioners improve compliance with state laws and policies to support a strong control environment. When exceptions are deemed necessary, the Commissioners should ensure that their actions do not create public perceptions of favoritism or conflict of interest. The reasons for the exception should be properly documented in the minutes. In addition, the Commissioners should develop and implement clear policies on the complaint resolution process and the refunding of fees.

Management's Response:

The Commission will draft a new rule which addresses policy for Commissioners participating in Complaint Review Committee (CRC) matters and overall operations. The Commission will draft a new rule regarding refunds of license fees. Additionally, the Commission will amend its by-laws to incorporate a statement on Conflict of Interest and Public Perception regarding Commissioners' involvement in issues of Compliance. The Commission will begin to address the above during its meeting in May 1998 and will implement these by the start of Fiscal Year, 1999. The Commission will pursue and follow diligently all rules and laws (established criteria) pertaining to the Exit Interview Process so as to ensure that the favoritism cannot be perceived.

TEXAS FUNERAL SERVICE COMMISSION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Previous Recommendations	Implementation Status ¹			Follow-Up Audit Results	Management's Responses ²
	I	U	N		
Agency 513 Texas Funeral Service Commission					
<p>The Commission should comply with the Mortuary Law to ensure that the history of violations is reviewed prior to assessing administrative penalties. In addition, fines should be more severe than previous penalties assessed for the same violations.</p> <p>The Commission should comply with Mortuary Law by:</p> <ul style="list-style-type: none"> Formally tracking and reporting Commissioner absences to the Chairman of the Commission. In case of excessive absences (more than half the scheduled meetings in a calendar year) the Chairman should notify the Office of the Governor that potential grounds for removal exists. Finally, the Commission should document absences excused by a majority vote of the Commission in its meeting minutes. 	✓	✓		<p>At the time of our review, the Commission had not yet dealt with cases involving repeated offenses of the same violation. Therefore, we were unable to test for compliance. However, the Commission has created a list of candidates ineligible for renewal due to penalties. In addition, the Commission now maintains a penalty history of licensees. During the Complaint Review Committee deliberations we attended, members mentioned that fines should be more severe than previous penalties assessed for the same violations.</p> <p>Between the time of our prior audit (August 1997) and our follow-up review, only one meeting occurred. According to the meeting's minutes, all Commission members were present. In addition, during our visit, we attended three January Commission committee meetings and observed a formal process of recording Commissioners in attendance.</p>	<p><i>The Complaint Review Committee (CRC) has made progress in detailing CRC actions through quarterly reports. Computer tracking of licensees has been set up to lock in licensees determined as ineligible for renewal. A Complaint Summary Form has been revised to include the violation penalty range set by statute for CRC members to consider in assessing administrative penalties.</i></p>

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TEXAS FUNERAL SERVICE COMMISSION
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Previous Recommendations	Implementation Status ¹			Follow-Up Audit Results	Management's Responses ²
	I	U	N		
Agency 513 Texas Funeral Service Commission					
<ul style="list-style-type: none"> Ensuring that all public members of the Commission make every effort to attend and participate at Commission meetings on a regular basis. <p>The embalmers' and funeral directors' examinations should be updated and changed after each testing period. The Commission could consider using a test bank for questions so that each examination's content is different.</p>	✓			<p>The Commission has created a computer test bank for its written exams. We observed a demonstration by the Commission staff on the software program used to randomly generate multiple-choice questions. The test bank program also scrambles the individual questions to vary the order of the questions.</p>	
<p>The Commission should:</p> <ul style="list-style-type: none"> Develop and implement procedures to review the outcome of previous inspections and investigations for each licensee prior to granting license renewal. This would ensure that licenses are not renewed for those whose licenses have been revoked. 	✓			<p>The Commission has revised its policies and procedures to include a revised renewal form and a list of those whose licenses have been revoked. The Commission's revised renewal forms require candidates to tell if they are currently the subject of an administrative action by the Commission. Also, the Commission created a comprehensive list of those with outstanding penalties, revocations, or suspensions. Licensees on the list are denied renewal and are given reminders of outstanding penalties.</p>	

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SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Previous Recommendations	Implementation Status ¹			Follow-Up Audit Results	Management's Responses ²
	I	U	N		
Agency 513 Texas Funeral Service Commission					
<ul style="list-style-type: none"> Establish standard administration and grading criteria for exit interviews. 	✓			The Commission has standardized the exit interview process as recommended. It provides the interviewer with grading criteria for exit interview questions. The answer key explains what key points should be included in the interviewee's response. The Commission provides a page to document scoring.	
The Commission should develop and implement adequate controls to ensure that the decisions of the governing board are carried out as intended. For example, the Commission could appoint a committee to review executed agreements to ensure they confirm to decisions made by the governing board.	✓			The Complaint Review Committee reviews executed agreements to ensure they conform to decisions made by the governing board. Commission agreements refer to the assessment of penalties or the application of suspensions used to enforce licensing requirements. The Commission created a comprehensive list of those with outstanding penalties, revocations or suspensions. The Chief Accountant provides quarterly reports to the Executive Director and legal counsel. Information is kept on a spreadsheet and in the system to track suspensions and/or status of any outstanding penalties.	

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SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Previous Recommendations	Implementation Status ¹			Follow-Up Audit Results	Management's Responses ²
	I	U	N		
Agency 513 Texas Funeral Service Commission					
<p>The Commission should:</p> <ul style="list-style-type: none"> Enforce existing continuing education policies requiring complete and timely receipt of sponsor applications and fees prior to issuing sponsor approval. Develop procedures to enforce the policy requiring the Commission to maintain accurate records to support continuing education participation. Develop policies and procedures to ensure consistent assessment of application fees for continuing education sponsors/programs. 	<p>✓</p> <p>✓</p> <p>✓</p>			<p>The Commission has revised sponsor applications to track timely receipt and fees. We tested five sponsor applications to confirm the approval process. Each sponsor application reviewed included adequate documentation to verify complete and timely receipt of sponsor applications and fees prior to issuing sponsor approval.</p> <p>The Commission has created a computerized process for confirming continuing education credit. We verified the new procedures and tested five renewal applications for confirmation of continuing education credit. Each renewal application included adequate and accurate records to support continuing education participation.</p> <p>The Commission developed a sponsor application fee schedule to ensure consistent assessment of application fees for continuing education sponsors/programs. Also, the Commission revised its sponsor application forms to include the application fee schedule.</p>	

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SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Previous Recommendations	Implementation Status ¹			Follow-Up Audit Results	Management's Responses ²
	I	U	N		
Agency 513 Texas Funeral Service Commission					
<p>The Commission should:</p> <ul style="list-style-type: none"> Design and implement policies and procedures requiring standardized documentation of the support being offered as basis for personnel actions. Develop and implement objective, performance-based evaluation criteria to evaluate employee performance. 	✓			<p>The Commission's policies and procedures require using its revised personnel action and evaluation forms to standardize its personnel documentation. We reviewed a copy of the revised personnel action and evaluation forms, which the Commission began using in August 1997. The forms appear to provide adequate support for personnel actions.</p> <p>The Commission has revised its evaluation form to include criteria and their definitions. One section of the evaluation form addresses the specific job duties for the position evaluated.</p>	
<p>The Commission should:</p> <ul style="list-style-type: none"> Establish controls to ensure that cash deposits are adequately supported and reconciled to the actual receipts of the Commission and to the licenses issued. Furthermore, the Commission should ensure that cash receipts are deposited into the Treasury within the required three business days. 	✓			<p>The Commission has changed its accounting codes and added reconciliation procedures to its cash receipts process. We tested 12 items for reconciliation to actual receipts and licenses issued and found no exceptions. The Commission also appears to be in compliance with the three-day deposit rule. We tested six items for adherence to the three-day deposit rule and found no exceptions.</p>	

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SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Previous Recommendations	Implementation Status ¹			Follow-Up Audit Results	Management's Responses ²
	I	U	N		
Agency 513 Texas Funeral Service Commission					
<ul style="list-style-type: none"> Establish controls to ensure that cash disbursement duties are properly segregated so that the same employee cannot prepare, enter, approve, and process accounting transactions. 	✓			Per our interview with the Chief Accountant and our review of the <i>Policies & Procedures Manual</i> , the Commission appears to have adequate segregation of duties so that the same employee cannot prepare, enter, approve, and process accounting transactions.	
The Commission should perform periodic reconciliation of the fixed-asset list to its accounting records.	✓			The Commission performs the required annual reconciliation of its internal accounting records to the State Property Accounting system's fixed-asset list.	
<p>The Commission should:</p> <ul style="list-style-type: none"> Develop an adequate understanding of its information needs. This understanding should be used to develop controls to ensure that the Commission captures the relevant information it needs. 		✓		The Commission has received a proposal from the Department of Information Resources regarding its system and is currently holding meetings with Micro-Media Solutions, Inc., to discuss the Commission's information needs.	<i>The Executive Director and staff have worked to develop a clear understanding of the Commission's information needs and its inability to acquire this information from the existing licensing database. The staff has submitted individual information needs for use in developing a new licensing database. Micro-Media Solutions, Inc. is currently developing a Microsoft Access database available to the staff for testing by March 23, 1998. If the new database meets the needs and requirements staff, the Commission should have a new licensing database in operation by April 30, 1998.</i>

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TEXAS FUNERAL SERVICE COMMISSION
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Previous Recommendations	Implementation Status ¹			Follow-Up Audit Results	Management's Responses ²
	I	U	N		
Agency 513 Texas Funeral Service Commission					
<ul style="list-style-type: none"> Develop and implement policies and procedures to ensure that its performance measure results are collected, maintained, and supported by reliable and accurate data. 	✓			To ensure that the its performance measure results are collected, maintained, and supported by reliable and accurate data, the Commission revised its files to include relevant information. We tested three facility establishment files to confirm its revisions and found them to be implemented. In addition, the Commission maintains copies of its performance measure calculations and supporting documentation.	
The Commission should implement adequate controls to ensure that it uses the measure definitions required by the Legislative Budget Board.	✓			The Commission discussed measure definitions with the Legislative Budget Board and made appropriate changes.	

¹Key for Implementation Status

- I - Recommendation Implemented
- U - Implementation Underway
- N - Recommendation Not Implemented

² Management's responses were requested only for recommendations that were underway or not implemented.

Texas State Soil and Water Conservation Board
 Summarized Audit Findings, Follow-Up Audit Results,
 and Management's Responses

Overall Conclusion

As of November 1997, Texas State Soil and Water Conservation Board (Board) had implemented three recommendations, was in the process of implementing four recommendations, and no longer needed to implement one of the recommendations made in the *1996 Small Agency Management Control Audit* (SAO Report No. 97-013, November 1996). The Board still needs to enhance its policy management area.

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 592 Texas State Soil and Water Conservation Board					
The Board should: <ul style="list-style-type: none"> Consider adopting procedures that specifically describe the steps to be performed during annual status reviews of Soil and Water Conservation Districts. This should include any tests used to determine the effectiveness of the pollution control practices implemented. 		✓		Since the previous report, the Board has drafted the Reference Guide, Nonpoint Source Pollution Abatement , for performing annual status reviews. The Board is currently in the process of revising these guidelines, and the governing board has not yet formally approved them. In addition to the guidelines, the Board needs to develop detailed procedures for conducting the reviews and for completing the associated evaluation form.	<i>The State Board concurs with the auditor's follow up report. We have made significant progress in implementing the auditor's recommendation and are completing the following procedures. The agency's Reference Guide, Nonpoint Source Pollution Abatement has been revised and is currently undergoing staff review. It is anticipated that the document will be presented to the Board for formal approval at the Board's May 1998 meeting. The section of the reference guide containing policy and procedures for conducting annual status reviews has been expanded to include the detailed procedures indicated as needed by the audit. We anticipate that completion on these final steps will fully implement this recommendation.</i>

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- I - Recommendation Implemented
- U - Implementation Underway
- N - Recommendation Not Implemented

² Management's responses were requested only for recommendations that were underway or not implemented.

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 592 Texas State Soil and Water Conservation Board					
<p><u>Auditor Follow-Up Comment (applicable to preceding recommendation):</u></p> <ul style="list-style-type: none"> In fiscal year 1995, the Board committed to funding approximately \$2.1 million for water quality improvements. In order to help ensure that this funding brings about the desired outcome of cleaner water, the Board should set some criteria up front by which to judge the results of the program and then make adjustments or refinements as a result of learning more through the monitoring process. Setting clear expectations and goals should help the landowners and the Board measure the success of the practices implemented through this program. 			✓	<p>Due to the nature of non-point source water pollution, we agree that the Board should not be required to set criteria to measure water quality changes as a result of nonpoint source pollution abatement efforts.</p> <p>Available guidelines and the Board's enabling legislation mandate the Board to encourage the adoption of best practices for pollution abatement. Environmental Protection Agency (EPA) descriptions of nonpoint source pollution emphasize the institution of best practices, and specifically do not recommend goals involving measurement of water quality.</p> <p>Existing tests for implementation of best practices appear to meet the requirements of the enabling legislation and of EPA and U.S. Department of Agriculture guidelines for nonpoint source pollution abatement.</p>	<p><i>The agency concurs that the existing tests for implementation of best practices appear to meet the requirements of the enabling legislation and of EPA and USDA guidelines for nonpoint source pollution abatement and that goals measurement of water quality are not specifically recommended.</i></p>

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TEXAS STATE SOIL AND WATER CONSERVATION BOARD
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 592 Texas State Soil and Water Conservation Board					
<ul style="list-style-type: none"> Require that receipts for all cost-share claims be submitted with the Performance Certification to ensure that the amounts paid are accurate. Develop a disclosure statement to be completed by all Directors of local Soil and Water Conservation Districts participating in the cost-share assistance program. 	✓			<p>The Board now requires cost-share claimants to submit their receipts with a Performance Certification to the District Directors. The District Directors verify these claims and forward them to the Board for payment. In our testing of 11 fiscal year 1997 cost-share claims, no exceptions were found.</p> <p>The Board developed a disclosure statement to be completed by all directors of local soil and water conservation districts participating in the cost-share assistance program. Although management notified the directors in writing of the procedure change, it is not consistently followed. In our review of 16 approved applications from district directors 11 out of 16 (69 percent) lacked a disclosure statement.</p>	<p><i>The State Board agrees with the auditor that additional steps are necessary to insure compliance with the procedures we have already implemented. All applications for cost share assistance are now being reviewed as a separate process to determine if the applicant is a district director. Applications by directors will not be processed in Accounting without the disclosure statement. The State Board expects that this additional procedure will insure compliance.</i></p>
				<p>Even though the participation level of district directors appears low (16 out of 1,080 directors, or approximately 2 percent), the actual participation level could be significantly higher because district directors may also participate in programs as members of farming proprietorships, partnerships, or corporations and are, therefore, not as easily identified. The Board should focus efforts to ensure that the disclosure statement is used as required by the agency.</p>	

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² Management's responses were requested only for recommendations that were underway or not implemented.

TEXAS STATE SOIL AND WATER CONSERVATION BOARD
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 592 Texas State Soil and Water Conservation Board					
The Board should submit the required performance measures reports to the Legislative Budget Board in a timely manner.	✓			The Board is now submitting the required performance measures reports to the Legislative Budget Board in a timely manner.	
The Board should document the procedures and responsibilities of the Information Resources Committee to ensure that the members are fully aware of their advisory role.	✓			The Board has developed an information sheet which specifies the procedures and responsibilities of the Information Resources Committee (Committee). Currently, management provides only verbal communication of requirements and expectations when making requests of the Committee. The process could be improved if the Board provided Committee members with written expectations for accomplishing the assigned task.	

¹Key for Implementation Status

- I - Recommendation Implemented
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² Management's responses were requested only for recommendations that were underway or not implemented.

The Board should establish procedures to ensure compliance with the statute requiring all agencies to list all job openings with the Texas Workforce Commission for which persons from outside the agency will be considered.	✓			The Board still needs to develop specific and formal procedures to ensure compliance with the statute requiring agencies to list all job openings with the Texas Workforce Commission. However, we should note that in our review of the Board's fiscal year 1997 job openings, we identified no exceptions.	<i>The State Board has always referred to and used the appropriation bill, other related statutes and rules as the procedures to follow in hiring new employees. The issue in this recommendation is that the agency should draw from the sources cited in the above response and formalize its own set of procedures. The State Board agrees with the recommendation and will continue to formalize its procedures as the auditor recommends, with final implementation to be completed during fiscal year 1998.</i>
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TEXAS STATE SOIL AND WATER CONSERVATION BOARD
SUMMARIZED AUDIT FINDINGS, FOLLOW-UP AUDIT RESULTS, AND MANAGEMENT'S RESPONSES

Recommendations	Implementation Status ¹			Audit Results	Management's Responses ²
	I	U	N		
Agency 592 Texas State Soil and Water Conservation Board					
The Board should periodically reconcile its fixed asset records with the State Property Accounting (SPA) system.		✓		The Board has been performing a fixed-asset reconciliation on an annual basis. However, because of past reconciliation difficulties, we recommend that the Board perform a reconciliation of fixed assets each month. This is the reconciliation frequency recommended by SPA. This will help minimize the risk of misstatements and possible loss of the State's assets.	<i>The State Board concurs with the follow up comments. Additional procedures for monthly rather than annual reconciliation of fixed assets are being implemented, with final implementation to be completed during fiscal year 1998.</i>

¹Key for Implementation Status

- I - Recommendation Implemented
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² Management's responses were requested only for recommendations that were underway or not implemented.

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Appendices

Objectives, Scope, and Methodology

Objectives

The objective of the management control audits at six small agencies was to determine if each agency had adequate controls to meet legislative mandates and deliver intended benefits.

The objective of the follow-up reviews at six small agencies was to determine if previous recommendations made by the State Auditor's Office had been implemented. The follow-up review of one agency (Texas Funeral Service Commission) was expanded to include a specific management control issue that came to our attention.

Scope

Our management control audits of six small agencies included determining if:

- Agencies are adequately performing their statutory functions.
- The organizational structure facilitates communication, provides for clear lines of authority, and enhances the effectiveness of operations.
- Accounting controls are in place, controlling effectively, and used economically and efficiently.
- Human resources are reasonably managed and in compliance with laws and regulations.
- Only qualified applicants are licensed by licensing agencies.
- A good-faith effort is made to comply with state requirements for historically underutilized businesses (HUBs).

Methodology

The methodology used on this audit consisted of collecting information, performing audit tests and procedures, and analyzing and evaluating the results against established criteria.

Information collected to accomplish the audit objectives included the following:

- Interviews with management and staff
- Documentary evidence, including:
 - State and federal statutes, regulations, and rules

- Agency documents, plans, policies, procedures, manuals, reports, memoranda, minutes, and other written communication
- Various audit and management reports from both internal and external sources
- Agency-generated financial data and reports

Procedures and tests conducted:

- Reviewed policies and procedures to ensure alignment of statutory functions, appropriations, and mission in the strategic plan
- Reviewed policies and procedures over budgeting, cash receipts, disbursements, grants and contracts, and fixed assets
- Reviewed policies and procedures over human resource activity, including recruitment/selection, training, performance evaluations, and Fair Labor Standards Act (FLSA)
- Reviewed controls over management information systems, including automated information systems, disaster recovery plans, and information regularly provided to governing boards and management
- Reviewed policies and procedures over the licensing function, including examinations, inspections, investigations, and compliance with Texas Guaranteed Student Loan Corporation
- Evaluated compliance with requirements for historically underutilized businesses

Analytical techniques used:

- Financial review and analysis
- Process review and analysis
- Content analysis
- Trend analysis

Criteria used:

- Statutory requirements
- General and specific criteria developed by the State Auditor's Office Inventory of Accountability Systems Project
- Process criteria from the Comptroller of Public Accounts, the Department of Information Resources, and the General Services Commission

Other Information

Fieldwork and follow-up work on the 12 small agency audits were conducted from October 1997 through February 1998. All reviews were conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

No significant instances of noncompliance with these standards occurred.

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

- Susan Page Driver, CPA, CIA (Project Manager)
- Nicole Merridth-Marrero, MBA (Assistant Project Manager)
- Jose R. Carrillo, MPAff
- Jaime M. Contreras, MBA
- Michelle Cook
- Jerry Davis, CPA, CIA, CMA
- Janice K. Engler
- Kerre Eppinger
- Paul Inameti, CPA
- Kimberlee McDonald
- Odafe Okiomah
- Ann E. Paul, MPA
- Stacey A. Williams
- Anna F. Zhang, MPAff
- Bruce Truitt, MPAff (Quality Control Reviewer)
- Mattye G. Keeling, CFE, CGFM (Quality Control Reviewer)
- Carol Noble, CISA, CGFM (Audit Manager)
- Deborah Kerr, Ph.D. (Audit Director)

Summary of Audit Recommendations by Agency Referenced to Key Accountability Control Systems¹ and Applicable Agency Strategies

Audit Finding	Applicable Agency Strategy 1997 Appropriated Dollars	SAO Accountability Control System		
		Info. Mgt. ²	Res. Mgt. ³	Policy Mgt. ⁴
Board of Barber Examiners (See page 7.)				
Licensing and Enforcement:				
<ul style="list-style-type: none"> The Board should improve compliance with statutes governing examinations. 	A.1.1 Licensing /\$168,529			✓
<ul style="list-style-type: none"> The Board should improve controls over inspections and complaint investigations. 	B.1.1 Investigations /\$353,779			✓
Human Resource Controls:				
<ul style="list-style-type: none"> The Board should provide timely performance appraisals for employees. 	Human resource controls affect all strategies.			✓
<ul style="list-style-type: none"> The Board should create and maintain functional job descriptions for all positions. 				✓
Financial Controls:				
<ul style="list-style-type: none"> The Board should improve accounting practices. 	Financial controls affect all strategies.		✓	
<ul style="list-style-type: none"> The Board should improve controls over cash receipts. 			✓	
<ul style="list-style-type: none"> The Board should improve controls over travel vouchers. 			✓	

¹The State Auditor's Office categorizes agency management control systems into four categories. We did not perform audit work in the area of performance management controls and thus have no recommendation for that management control system.

²Information Management addresses the risk that an activity will fail to meet expected results because management information is not protected, communicated, or used effectively by decision makers.

³Resource Management addresses the risk that an activity will fail to achieve expected results or will not establish and maintain an environment that protects against scandals and financial disaster because resources are not managed efficiently and effectively.

⁴Policy Management addresses the risk that an activity will fail to deliver expected results because changes in the management environment or changed customer expectations cause instability in operations or resources are not efficiently used or effectively controlled.

APPENDIX 2
SUMMARY OF AUDIT RECOMMENDATIONS BY AGENCY
REFERENCED TO KEY ACCOUNTABILITY CONTROL SYSTEMS¹ AND APPLICABLE AGENCY STRATEGIES

Audit Finding	Applicable Agency Strategy 1997 Appropriated Dollars	SAO Accountability Control System		
		Info. Mgt. ²	Res. Mgt. ³	Policy Mgt. ⁴
<p>Policy Management Controls:</p> <ul style="list-style-type: none"> The Board should improve policy management. 	Policy management controls affect all strategies.			✓
Texas School for the Deaf (See page 17.)				
<p>Human Resource Controls:</p> <ul style="list-style-type: none"> The School should improve procedures over Fair Labor Standards Act administration. The School should improve the performance appraisal process. The School should create and maintain functional job descriptions for all positions. The School should develop a training budget, training goals, and a system to identify training needs. <p>Financial Controls:</p> <ul style="list-style-type: none"> The School should improve separation of duties and supervision over cash transactions. The School should improve controls over fixed assets. <p>Management Information Systems Controls:</p> <ul style="list-style-type: none"> The School should prepare a formal disaster recovery plan. 	<p>Human resource controls affect all strategies.</p> <p>Financial controls affect all strategies</p> <p>Management Information systems controls affect all strategies.</p>		✓ ✓ ✓ ✓ ✓ ✓	

APPENDIX 2
SUMMARY OF AUDIT RECOMMENDATIONS BY AGENCY
REFERENCED TO KEY ACCOUNTABILITY CONTROL SYSTEMS¹ AND APPLICABLE AGENCY STRATEGIES

Audit Finding	Applicable Agency Strategy 1997 Appropriated Dollars	SAO Accountability Control System		
		Info. Mgt. ²	Res. Mgt. ³	Policy Mgt. ⁴
Texas State Board of Medical Examiners (See page 25.)				
Human Resource Controls: <ul style="list-style-type: none"> The Board should strengthen controls over decentralization of human resource functions. The Board should improve procedures over Fair Labor Standards Act administration. The Board should maintain employee selection documentation. The Board should improve the performance appraisal process. 	Human resource controls affect all strategies.			✓
				✓
				✓
				✓
Financial Controls: <ul style="list-style-type: none"> The Board should improve compliance with HUBs. 	Financial controls affect all strategies.		✓	

Audit Finding	Applicable Agency Strategy 1997 Appropriated Dollars	SAO Accountability Control System		
		Info. Mgt. ²	Res. Mgt. ³	Policy Mgt. ⁴
Board of Nurse Examiners (See page 31.)				
Financial Controls: <p>The Board should improve controls over Historically Underutilized Businesses and contracting to ensure compliance with state laws and regulations.</p>	Financial controls affect all strategies		✓	
Texas Racing Commission (See page 33.)				

APPENDIX 2
SUMMARY OF AUDIT RECOMMENDATIONS BY AGENCY
REFERENCED TO KEY ACCOUNTABILITY CONTROL SYSTEMS¹ AND APPLICABLE AGENCY STRATEGIES

Audit Finding	Applicable Agency Strategy 1997 Appropriated Dollars	SAO Accountability Control System		
		Info. Mgt. ²	Res. Mgt. ³	Policy Mgt. ⁴
Licensing and Enforcement:				
<ul style="list-style-type: none"> The Commission should ensure licensees meet licensing requirements. 	A.1.1 Regulate Racetrack Owners/ \$387,212 A.2.1 Regulate Wagering/ \$380,495 B.1.1 Regulate Licensees/ \$1,112,164 B.2.1 Race Supervision/\$1,312,116			✓
<ul style="list-style-type: none"> The Commission should strengthen the enforcement process. 	A.1.1 Regulate Racetrack Owners/ \$387,212 A.2.1 Regulate Wagering/ \$380,495 B.1.1 Regulate Licensees/ \$1,112,164 B.2.1 Race Supervision/\$1,312,116			✓
<ul style="list-style-type: none"> The Commission should enhance the inspections process. 	A.1.1 Regulate Racetrack Owners/ \$387,212 A.2.1 Regulate Wagering/ \$380,495 B.2.1 Race Supervision/\$1,312,116			✓

APPENDIX 2
SUMMARY OF AUDIT RECOMMENDATIONS BY AGENCY
REFERENCED TO KEY ACCOUNTABILITY CONTROL SYSTEMS¹ AND APPLICABLE AGENCY STRATEGIES

Audit Finding	Applicable Agency Strategy 1997 Appropriated Dollars	SAO Accountability Control System		
		Info. Mgt. ²	Res. Mgt. ³	Policy Mgt. ⁴
Financial Controls: <ul style="list-style-type: none"> • The Commission should establish controls over cellular telephones. • The Commission should improve controls over travel vouchers processes. • The Commission should correct weaknesses with petty cash and travel advance accounts. • The Commission should deposit cash receipts within three business days. • The Commission should improve controls over disbursements and purchasing. 	Financial controls affect all strategies.		✓ ✓ ✓ ✓ ✓	

¹The State Auditor's Office categorizes agency management control systems into four categories. We did not perform audit work in the area of performance management controls and thus have no recommendation for that management control system.

²Information Management addresses the risk that an activity will fail to meet expected results because management information is not protected, communicated, or used effectively by decision makers.

³Resource Management addresses the risk that an activity will fail to achieve expected results or will not establish and maintain an environment that protects against scandals and financial disaster because resources are not managed efficiently and effectively.

⁴Policy Management addresses the risk that an activity will fail to deliver expected results because changes in the management environment or changed customer expectations cause instability in operations or resources are not efficiently used or effectively controlled.

APPENDIX 2
SUMMARY OF AUDIT RECOMMENDATIONS BY AGENCY
REFERENCED TO KEY ACCOUNTABILITY CONTROL SYSTEMS¹ AND APPLICABLE AGENCY STRATEGIES

Audit Finding	Applicable Agency Strategy 1997 Appropriated Dollars	SAO Accountability Control System		
		Info. Mgt. ²	Res. Mgt. ³	Policy Mgt. ⁴
Human Resource Controls: <ul style="list-style-type: none"> • The Commission should improve procedures over Fair Labor Standards Act administration. • The Commission should ensure that all staff receive adequate and appropriate training. • The Commission should improve policies and procedures related to the Americans with Disabilities Act, sexual harassment, and employee grievances. • The Commission should limit access to automated information systems. 	Human resource controls affect all strategies. B.1.1. Regulate Licensees/ \$1,112,164			✓ ✓ ✓ ✓

APPENDIX 2
SUMMARY OF AUDIT RECOMMENDATIONS BY AGENCY
REFERENCED TO KEY ACCOUNTABILITY CONTROL SYSTEMS¹ AND APPLICABLE AGENCY STRATEGIES

Audit Finding	Applicable Agency Strategy 1997 Appropriated Dollars	SAO Accountability Control System		
		Info. Mgt. ²	Res. Mgt. ³	Policy Mgt. ⁴
State Securities Board (See page 49.)				
Policy Management Controls: <ul style="list-style-type: none"> The Board should formalize administrative procedures. 	Policy management controls affect all strategies.			✓
Management Information Systems Controls: <ul style="list-style-type: none"> The Board should improve the disaster recovery plan for Local Area Network (LAN). The Board should provide operational information to the governing board on a regular basis. 	Management information systems controls affect all strategies.	✓		
Human Resource Controls: <ul style="list-style-type: none"> The Board should improve documentation of the employee selection process. The Board should strengthen the performance appraisal system. 	Human resource controls affect all strategies.	✓		✓

¹The State Auditor's Office categorizes agency management control systems into four categories. We did not perform audit work in the area of performance management controls and thus have no recommendation for that management control system.

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Summary of Results of Follow-Up Audits

Implementation Status of Prior Audit Recommendations							
Agency	I ¹		U		N		Total Number of Recommendations
	No.	%	No.	%	No.	%	
Texas Animal Health Commission	20	51%	13	33%	6	16%	39
Texas Commission on the Arts	4	45%	3	33%	2	22%	9
Texas Commission for the Deaf and Hard of Hearing	16	73%	5	23%	1	4%	22
Texas Commission on Fire Protection	20	61%	9	27%	4	12%	33
Texas Funeral Service Commission	15	88%	2	12%	0	0%	17
Texas State Soil and Water Conservation Board	4	50%	4	50%	0	0%	8
Totals	79	62%	36	28%	13	10%	128

¹The recommendation has been implemented or corrective action is not needed.

Appendix 4

1997 Appropriations and Full-Time Equivalent Employees by Agency

Agency Number	Agency	1997 Appropriations	Average Full-Time Equivalent Employees for 1997
Management Control Audit			
502	Board of Barber Examiners	\$522,308	13
772	Texas School for the Deaf	14,271,289	445
503	Texas State Board of Medical Examiners	4,617,666	89
507	Board of Nurse Examiners	2,558,542	46
476	Texas Racing Commission	8,281,460	61
312	State Securities Board	3,214,893	76
Total for Management Control Audits		\$33,466,158	730
Follow-Up Audits			
554	Texas Animal Health Commission	\$12,049,679	220
813	Texas Commission on the Arts	4,054,316	16
335	Texas Commission for the Deaf and Hard of Hearing	1,165,654	9
411	Texas Commission on Fire Protection	6,680,526	131
513	Texas Funeral Service Commission	491,822	9
592	Texas State Soil and Water Conservation Board	8,030,819	58
Total for Follow-Up Audits		\$32,472,816	443
TOTAL FOR ALL AUDITS		\$65,938,974	1,173