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An Audit Report on Management Controls at the Commission for the Deaf and Hard of Hearing

July 1997

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Key Points of Report

An Audit Report on Management Controls at the Commission for the Deaf and Hard of Hearing

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Overall Conclusion

Weaknesses in controls over contracts, budgeting, and licensing prevent the Commission for the Deaf and Hard of Hearing (Commission) from ensuring that its mission is achieved. Furthermore, we identified opportunities to improve controls over cash receipts and fixed assets. However, the Commission has established adequate management control systems for strategic planning, human resources, and performance management.

Key Facts and Findings

- X The lack of controls over key areas puts the Commission at risk of not achieving its statutory functions. We noted the following weaknesses in contracting, budgeting, and licensing:
 - The Commission provides ineffective oversight of the 23 local councils that provide direct services to the deaf and hard of hearing. In addition, the Commission lacks a method for selecting the best contractors.
 - The Commission is not in compliance with its enabling legislation to develop a formula for allocating funds to the councils. In addition, the Commission does not effectively monitor its program budgets.
 - Weaknesses in the licensing and examination process prevent the effective regulation of interpreters. With only one video exam for Level III interpreters, candidates who retake the exam already know its contents. Furthermore, testing for Level V interpreters was suspended for one year as a result of a deteriorated video exam.

- X We identified the following opportunities to improve controls over cash receipts and fixed assets:
 - The lack of key controls over cash receipts does not ensure that Commission funds are protected from loss, theft, or abuse. In fiscal year 1996, cash receipts totaled \$109,000.
 - The Commission is not in compliance with State Property Accounting requirements.

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This management control audit was conducted in accordance with Government Code, Sections 321.0132 and 321.0133.

Overall Conclusion

At the Commission for the Deaf and Hard of Hearing (Commission), weaknesses in controls over contracts, budgeting, and licensing prevent the Commission from ensuring that its mission is achieved. Opportunities for improvement in the areas of cash receipts, fixed assets, and management information systems. In addition, we determined that one of the performance measures we reviewed was inaccurate. However, the Commission has established adequate management control systems for strategic planning, human resources, and performance management.

Background

The mission of the Commission for the Deaf and Hard of Hearing is to be an advocate for the deaf and hard of hearing, to eliminate communication barriers, and to help the deaf and hard of hearing participate in society to their individual potential. In fiscal year 1996, the Commission licensed 1,261 interpreters and had contracts with 23 local councils to provide direct services to the deaf and hard of hearing. In fiscal year 1996, the Commission had nine employees and expenditures of \$1,185,448.

The Commission contracts with the Commission for the Blind to provide administrative services, including accounting, payroll/personnel, purchasing, property control, and data processing.

Section 1:

Establish Effective Contract Administration

Our review of controls over contracts with 23 local councils that provide direct services for the deaf and hard of hearing revealed a lack of effective oversight of the councils. Funding agencies are ultimately accountable to the taxpayers for ensuring that contractors use public funds wisely and in a manner which provides the most benefits to citizens. However, inadequacies in monitoring contractors, in methodologies for establishing payment rates for councils and interpreters, and in selecting contractors prevent the Commission from ensuring that expenditures achieve intended results.

Section 1-A:

The Commission Should Establish a Plan of Site Visits to Provide Oversight of Councils

The Commission does not provide effective oversight of the 23 councils with whom it contracts for program services. Without effective controls, the Commission cannot ensure that the \$667,000 awarded to the councils in fiscal year 1996 was spent in a way to maximize services to the deaf and hard of hearing. Specifically, we noted:

- X There is no formal schedule based on risk to provide for on-site visits of the 23 councils. In fiscal year 1996, the Commission made eight site visits that generally lasted one day or less. Councils were selected based on the date of the last review and on convenience. On-site monitoring should be based on overall risk such as contract amount and past compliance records.
- X The Commission has no established methodology that specifies the review procedures to be followed when performing a site visit. Furthermore, the results of site reviews are inadequately documented.

Insufficient on-site monitoring could result in the misuse of funds not being detected in a timely manner.

Recommendations:

We recommend that the Commission establish a formal audit plan to provide oversight of the councils. At a minimum, the audit plan should have the following provisions:

- X A methodology for assessing risk based on objective criteria
- X A schedule for site visits based on risk and date of last site visit
- X The procedures to be followed when performing a site visit, including a review of financial records (especially support for expenditures) and program activities
- X A records retention schedule of the documentation to be maintained relating to the results of site visits and field reviews

Management Response:

A procedure is being developed that will call for annual on-site council reviews. A schedule of such reviews has been developed for FY 1998. Restrictions on funds for travel could interfere with the on-site reviews.

At our request, the State Auditor has agreed to provide technical assistance to the agency for developing new methods for field reviews, and to train staff to perform those reviews. The new procedure will include appropriate documentation of findings.

We agree with this recommendation and will use the recommended provisions as a guide in developing the audit or field review plan. Again, technical assistance from the State Auditor's Office will be utilized.

Section 1-B:

The Commission Should Improve the Process for Selecting Contractors

In a desire for consistency, the Commission recontracts with the same providers each year. The Commission has not developed objective criteria to select contractors. As a result, the Commission cannot ensure that the best contractors are chosen. The Commission requests proposals each year but always selects the same contractors. Consequently, other potential contractors have few incentives to respond to a request for proposal if they believe there is little or no hope that they will be selected.

Furthermore, in issuing requests for proposals (RFP) each year, the Commission is not following its own rules which state that contracts should be for two years. The point of an RFP process is to publicize bidding to encourage competitive bids. Having an annual RFP process is time-consuming and serves no purpose if the Commission automatically recontracts with the same providers.

Recommendations:

We recommend that the Commission 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 RFPs and documentation that supports why each contractor was selected.

We recommend that the Commission develop a two-year contract period in alignment with agency rules.

Management Responses:

In response to the auditor's concerns, new criteria was developed and approved by the Commissioners, and is subsequently being used at this time.

The rule regarding two year contracts has been repealed. Under the new rule, any contracts may be renewed for a second year by decision of the Commissioners if the contractor meets all contractual requirements. The concept of two year contracts is viewed with favor and may be initiated in the future.

Section 2:

Improve Controls Over the Budgeting and Planning Functions

The Commission's lack of controls over budgeting and planning does not ensure that its services to the deaf and hard of hearing are maximized. There appears to be a lack of understanding about the effective use of budgetary information in managing programs. In addition, the Commission needs to develop formulas for allocating funds to the councils and for establishing a reimbursement rate for interpreters.

Section 2-A:

The Commission Should Devise a Formula for Allocating Funds to the Councils and a Payment Rate for Interpreters

The Commission is not in compliance with its enabling legislation requiring it to develop a formula for allocating funds among the councils. The Commission primarily bases current allocations to the councils on the previous year's allocations, even though it is unsure of the original basis of the allocations. The Commission does not have a methodology for allocating funds to the councils or documenting the basis of the allocations.

Furthermore, the Commission has only one reimbursement rate of \$30 per hour for interpreters, even though there are five certified levels of interpreters. The Commission could provide no documentation to support the reimbursement rate. Some councils hire more interpreters at higher certification levels than other councils. Councils pay interpreters based on their certification levels but are reimbursed at the rate of \$30 per hour. As a result, the reimbursement system is not based on the cost of services and encourages councils to use lower levels of interpreters to maximize profits. In fiscal year 1996, the Commission paid over \$495,000 for interpreter services.

Recommendations:

We recommend that the Commission develop and document:

- X A formula for equitably allocating funds to the councils
- X A reimbursement schedule for interpreters that distinguishes between the levels of certification and is based on the cost of services

Management Responses:

A new procedure has been developed for allocating funds to the councils. This procedure involves determining the estimated population of persons who are deaf or hard of hearing for each of the 11 HHSC regions and applying this allocation formula to the region. The new procedure will be used for FY 98 contracts.

The \$30 an hour rate for interpreter services is for a unit of service and not a level of service. This method of payment was established because it was considered the best practice at the time it was initiated. The Commission still feels that this method is the best practice until an alternative method can be developed. An extensive and prolonged review of this issue is expected and under way.

Section 2-B:

The Commission Should Use Budget Reports to Manage Programs

Program managers at the Commission do not effectively monitor their budgets to manage their programs. As a result, they do not know the amount of money available at any given time.

Program managers should be held accountable for managing their programs. To achieve this, each manager must know at any given time the amount of appropriations for which he or she is responsible, the amount expended, and the remaining budget.

Recommendation:

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.

Management Responses:

This finding reflects on the difficulty experienced in changing from an in-house accounting system administered by Commission staff to a new system and new procedures resulting from the contractual purchase of administrative support services from the Texas Commission for the Blind. We recently gained the capability for limited access to the computer system used by TCB for accounting, which is of some help. However, the only accurate and timely accounting information available to us is that kept on our own computer, and which we are using for the benefit of program managers. We agree to encourage program managers to make more and better use of accounting information which is available from our own computer.

We agree to this recommendation and are following up by making use of the information kept on our own computer, in addition to information provided by TCB.

Section 3:

Improve Controls Over the Licensing and Examination Process

The Commission needs to improve its controls over the licensing of interpreters. Weaknesses in the licensing process have resulted in waiting lists for candidates, delays in interpreters being licensed, and multiple problems with the exams. These consequences put the Commission at risk when performing one of its main statutory responsibilities, which is to license and regulate interpreters for the deaf.

We identified the following weaknesses in the examination process:

- X The Commission has only one video exam for Level III applicants. Consequently, candidates who retake the Level III exam already know the exam's contents. In addition, Level V testing had to be suspended for a year

because of a deteriorated video. The Commission did not monitor the appointed board to whom it had entrusted the redesign of examinations.

- X The Commission has not required a registration fee from candidates when they register for the exam. As a result, non-serious candidates who sign up for the exam and then do not show up take up places that could have been filled with serious candidates. This has resulted in waiting lists for candidates and delays in interpreters being licensed.
- X The Commission has not been in statutory compliance with Higher Education Code, Section 57.491, since early 1993 because it has not submitted information in the proper format to the Texas Guaranteed Student Loan Corporation (Corporation). Because the Commission has sent unusable information to the Corporation, it has not received information on loan defaulters from the Corporation. The Commission does not know which applicants have defaulted on student loans and should therefore not receive a license.

Recommendations:

We recommend that the Commission implement the following controls over the licensing and examination functions:

- X 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.
- X 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.
- X Begin submitting information to the Texas Guaranteed Student Loan Corporation in a usable format in order to receive and use current information from the Corporation on interpreters who should not be licensed.

Management Responses:

- X *We agree with the finding that candidates who retake the Level III examination already know the examination content. New Level III videotapes are being developed and candidates who retake will only be tested with the new tapes. The Commission got a late start in materials re-development, with this effort getting under way in the past two years. Several materials development projects are underway. A consultant who has expertise in testing standards and test development has been hired to work closely with the board in its endeavor to ensure that the tests administered to candidates are valid, reliable, and legally defensible. The Executive Director and Program Administrator have closely monitored the board for the past three years.*

The use of multiple videos has always been a program practice. Procedures are under way for re-development of all testing materials except that for the Morphoric Signs System (MSS). This includes the Level I, III, and V test materials and the Oral test materials. Completion of all these materials is expected in the next biennium and will result in once again having multiple videos for each test.

- X *We agree with this recommendation and have made rule changes effective September 1, 1997 that will implement this recommendation. Procedural changes have been made in response to the auditors' concerns and the need for more program efficiency. Effective September 1, testing candidates will be required to pay both the application fee and evaluation fee at the time of submitting the application. Also on that same date a new rule goes into effect that candidates will only be given one opportunity to take a test, instead of two, before their name is removed from the list. Also, another rule change is that candidates will have the option of testing at any site depending on availability.*
- X *As suggested by the State Auditors, contact will be made with the Board of Tax Professionals Examiners who has experienced similar problems with the transmission of data to TGLSC, and get their input regarding a means for resolving transmission problems.*

Section 4:

The Commission Should Correct Weaknesses in Financial Management

The Commission does not have adequate controls in place to ensure that its financial resources are being effectively and efficiently used. Specifically, we noted weaknesses in the management of cash receipts and fixed assets.

Section 4-A:

Enhance Controls Over Cash Receipts

Controls over cash receipts do not provide reasonable assurance that Commission funds are protected from loss, misuse, or abuse. In fiscal year 1996, the Commission had cash receipts of \$109,000.

The Commission contracts with the Commission for the Blind to provide administrative services, including accounting, payroll/personnel, purchasing, property control, and data processing. However, the contract with the Commission for the Blind does not eliminate the need for controls by the Commission for the Deaf and Hard of Hearing.

Approximately one-third of the Commission's cash receipts go directly to a lockbox account at the Comptroller of Public Accounts' office and two-thirds to the

Commission. Cash that comes into the Commission is recorded and sent to the Commission for the Blind for processing. We observed the following deficiencies in controls over cash receipts:

- X There is a lack of segregation of duties over cash receipts because the same person who receives cash sends it to the Commission of the Blind for processing.
- X No check log is maintained and reconciled to Commission for the Blind records.
- X The Commission for the Deaf and Hard of Hearing has no way to access detailed accounting records at the Commission for the Blind.
- X There is no reconciliation of examination fees from examination sites, and license receipts are not reconciled to licenses issued in order to account for all certificates issued, canceled, or in stock.

Recommendations:

We recommend that the Commission:

- X 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.
- X Consider implementing procedures to ensure that most fee receipts go directly to the Comptroller of Public Accounts' lockbox.
- X 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.
- X Develop procedures to reconcile its internal records to records at the Commission for the Blind.

Management Responses:

- X *In response to this finding staff assignments have been adjusted so that one staff member prepares a receipt of incoming funds and another delivers the funds to the Texas Commission for the Blind and has a staff member from TCB sign the receipt.*
- X *A check log has been maintained since June 1996 which was converted to a computerized system as of December 1996. This log is then checked against*

TCB deposit receipts which are then reconciled by the Commission's Administrative Assistant with TCB's general ledger.

X *The Commission recently gained limited access to TCB's accounting system which has been beneficial to the agency. Although the agency would like to gain detailed access, overwhelming demands on current staff would prevent the agency from taking full advantage.*

X *In response to this finding staff has updated database files to adequately document and calculate such information relative to this reconciliation of data. This reconciliation activity will be done on a quarterly basis.*

This recommendation was implemented immediately upon our notification of the auditor's concerns.

Fees related to the Board for the Evaluation of Interpreters generates the majority of the appropriated receipts received by the Commission. In response to this recommendation, the application form has been modified to include only the Comptroller of Public Accounts' lock box address thus eliminating the Commission's office address. Also, rule changes effective September 1, 1997 will reduce the necessity for fees to be received by the Commission since candidates will be required to pay their fee before being scheduled for an examination. Until the rule is in effect, efforts have been made to inform candidates to send their examination fees to the lock box and not bring the fee to the examination site.

In response to the auditor's concerns changes were made in the database to collect information so that reconciliations can be performed by the BEI Support Staff.

Reconciliations are done on a limited basis between the in-house budget tracking system and TCB's financial reports. The commission does not have a staff accountant.

Section 4-B:

Enhance Controls Over Fixed Assets

The Commission is not in compliance with State Property Accounting requirements. These requirements are designed to safeguard fixed assets and ensure that they are used in an effective way. Specific examples of noncompliance by the Commission include:

X Annual inventory is conducted solely by the property custodian rather than by two independent staff members. Having two people perform an inventory helps ensure that the Commission's fixed assets are protected.

X The Commission does not obtain and keep signed receipts from employees for property assigned to them. Signed receipts from employees that they have

received property assigned to them increases employees' accountability for the property they are using and also helps the Commission control its assets.

- X Inventory is reconciled to State Property Accounting records only on an annual basis, not monthly as required. The annual reconciliation is performed by the Commission for the Blind. In addition, the 1995 inventory list was inaccurate and did not include two items. As a result, the furniture and fixtures amount reported in the 1996 annual financial report was understated by \$4,600. Timely reconciliations are essential in helping to safeguard the assets of an agency and in detecting errors and irregularities involving state property.

Recommendation:

We recommend that the Commission enhance controls over fixed assets by having two people perform an annual inventory, having employees sign for all property in their possession, and by performing monthly reconciliations to State Property Accounting records.

Management Responses:

Two staff members have been designated to check inventory while the property custodian oversees the inventory.

In response to this finding a property assignment sheet has been developed to be given to each employee for signature verification for property assigned to them.

TCB is reconciling TCDHH inventory with the State Property Accounting on a monthly basis.

Section 5:

Enhance Controls Over Management Information Systems

Management information systems at the Commission could be better used to provide useful information.

- X The Commissioners are not routinely given periodic reports, except for financial statements, to help them in their oversight. Information such as services to individuals and number of clients served would help the Commissioners and executive management ensure that the Commission achieves its mission.
- X The Commission does not review and analyze the budget and program information it receives from the councils. As a result, the Commission cannot effectively manage and monitor the achievement of its goals and objectives.

- X The Commission lacks password security over licensing files to ensure that data cannot be changed by others.

It is important that the Commissioners and management have timely and relevant information to use in making decisions affecting the Commission. Without this relevant information, it is difficult for management to make informed decisions for improving the effectiveness of the Commission.

Recommendation:

We recommend that the Commission:

- X Develop an understanding of its information needs and evaluate and analyze operational information on an ongoing basis.
- X Provide complete, accurate, and timely information to the Commissioners and management so that they can provide effective oversight of the Commission.
- X Establish password security over licensing files.

Management Responses:

We agree to this finding. Information about the numbers of certified interpreters has been shared with Commissioners periodically. Information procedures are being developed for direct services program quarterly reports which will be prepared for Commissioners.

The Executive Director reviews budget and program information received from the councils, and discusses this information with the appropriate program staff. This review has been informal in the past but shall be documented in the future.

In response to this finding a security password for licensing files was installed on December 3, 1996.

Prior to 1995 the agency's computers were not utilized for analysis of data collection. With the addition of a staff person with the skills for developing computer capability for data analysis, and the addition of both new hardware and software, advances are being made in this area. A process will be developed for quarterly reports of program operations.

The quarterly reports mentioned above will be provided to the Commissioners and will be discussed in Commission meetings.

Results of Performance Measures Review

Measure	1996 Performance	Certification Results	Comments
Number of Hours of Communication Access Provided	9142.53	Certified	
Percent Increase in Number of Interpreters Certified Level III, IV, V	2.67	Inaccurate	As a result of human error, the Commission over-reported the percent increase in the number of interpreters by 20 percent. The error in the performance for the measure was caused by overcounting the number of certified interpreters by 1.

Objective, Scope, and Methodology

Objective

Our audit objective was to conduct an assessment of management control systems at the Commission for the Deaf and Hard of Hearing that enable it to meet legislative mandates and deliver intended benefits. An additional objective was to certify the accuracy of selected performance measures by examining the data and reviewing the controls over the measures being reported.

Scope

Our review included:

- X Determining whether the Commission was managing or using resources, including state funds, personnel, property, equipment, and space in an economical and efficient manner
- X Evaluating the causes of inefficiencies or uneconomical practices, including inadequacies in management information systems, internal and administrative procedures, organizational structure, and the use and allocation of resources
- X Determining whether financial, program, and statistical reports of the Commission contained useful data and were fairly presented

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 objective included the following:

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

- X Reviewed policies and procedures to ensure alignment of statutory functions, appropriations, and mission in the strategic plan
- X Reviewed compliance with Legislative Budget Board's directives for selected performance measures
- X Reviewed compliance with applicable laws and regulations in areas of funding, travel, and timekeeping
- X Reviewed policies and procedures over fixed assets, cash receipts and disbursements, and payroll
- X Reviewed policies and procedures over human resource activity, including performance appraisal and compliance with selected provisions of the Fair Labor Standards Act (FLSA)
- X Reviewed policies and procedures for the management information systems

Analytical techniques used:

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

Criteria used:

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

Other Information

Fieldwork at the Commission for the Deaf and Hard of Hearing was conducted from November 1996 through January 1997. All reviews were conducted in accordance with applicable professional standards, including:

- X Generally Accepted Government Auditing Standards
- X Generally Accepted Auditing Standards

The audit work was performed by:

- X Vandita Zachariah (Project Manager)
- X Deborah Powers, CPA
- X Robert Rodney, CPA
- X Susan P. Driver, CPA
- X Fran Carr, CPA (Quality Control Reviewer)

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