

**2000 Small Agency
Management Control Audit**

Lawrence F. Alwin, CPA

March 29, 2000

Members of the Legislative Audit Committee:

Generally, the seven agencies that received full audits (see text box below) have management processes in place to support their goals and objectives. However, the Cosmetology Commission and the Board of Podiatric Medical Examiners have weaknesses in their inspection and licensing processes, respectively. These weaknesses in regulatory procedures could result in unqualified individuals receiving licenses and unsafe practices going undetected.

In addition, some of the agencies do not always follow procedures and regulations for cash management, fixed assets, and travel. As a result, there is a risk that these agencies are not properly accounting for the State's resources. Furthermore, several agencies lack adequate support for hiring decisions and compliance with the Fair Labor Standards Act, increasing legal risks. The seven agencies reviewed expended \$16,699,597 in appropriations and revenues for fiscal year 1999. Of that amount, \$10,282,071 (61.6 percent) was spent on human resources.

At the five agencies where we followed up on the status of prior recommendations, 45 percent of the recommendations were implemented, and 51 percent were partially implemented. We also identified four new issues at three of these agencies.

The 12 agencies where we reviewed performance measures accurately reported performance in 80 percent of the 79 performance measures reviewed. Of the 16 inaccurate measures, 9 were incorrect because of mathematical calculations or technical errors. Seven were incorrect because of errors in the processes that agencies use to collect their performance data. One agency, the Executive Council of Physical Therapy and Occupational Therapy Examiners, had significant reporting problems. Only 23 percent of its performance measures were certified.

We appreciate the cooperation of the management and staff of the agencies we audited. The attachment contains more information on the issues we identified. Each agency received detailed information about our findings and recommendations. If you have any questions, please call Valerie Hill, Audit Manager, at (512) 479-4700.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

mjlw

Attachment

cc: Executive Directors of the Audited Agencies

Full Audits

- Cosmetology Commission
- Board of Podiatric Medical Examiners
- Commission on Private Security
- Department of Licensing and Regulation
- Emancipation Juneteenth Cultural and Historical Commission
- Aircraft Pooling Board
- Board of Tax Professional Examiners

Results of Full Audits

How Well Do Small Agencies Plan to Support Their Missions?

Overall, small agencies are accomplishing their goals. However, two regulatory agencies have significant issues concerning inspections and licensing. These problems could result in unqualified individuals receiving licenses and unsafe practices going undetected. The Cosmetology Commission lacks adequate procedures for selecting and documenting salon and school inspections. Its current processes do not ensure that violators are identified in a timely manner. The Board of Podiatric Medical Examiners is not fully complying with state statutes that address the licensing, inspection, and investigation of podiatrists.

At the seven agencies where we conducted full audits, 83 percent had problems with human resources management. (See Table 2.) These five agencies lacked adequate documentation for employees regarding recruitment, selection, appraisal, and Fair Labor Standards Act (FLSA) compliance. During fiscal year 1999, these agencies with human resources findings spent over \$5 million for human resources.

Without proper documentation, these agencies could be at risk for legal action based on hiring decisions and for liability for back wages based on incorrect or inadequate FLSA determinations.

Table 1

Fiscal Year 1999 Expenditures by Agency	
Agency	Expenditures ^a
Cosmetology Commission	\$ 2,374,126
Commission on Private Security	3,000,441
Board of Podiatric Medical Examiners	205,927
Emancipation Juneteenth Cultural and Historical Commission	24,988
Aircraft Pooling Board	3,736,317
Department of Licensing and Regulation	7,171,447
Board of Tax Professional Examiners	186,351
Totals	\$16,699,597
^a Source: Fiscal year 1999 Annual Financial Reports for individual agencies. Expenditures based on appropriations and other revenues.	

Table 2

Results of Full Audits by Type of Finding									
Type of Finding	Cosmetology Commission	Commission on Private Security	Board of Podiatric Medical Examiners	Emancipation Juneteenth Cultural and Historical Commission	Aircraft Pooling Board	Department of Licensing and Regulation	Board of Tax Professional Examiners	Percentage of Applicable Agencies With Findings	Dollar Amounts Affected
Legislative Mandates									
Inspections	✓		✓	N/A	N/A			40%	\$9,341,799 ^a
Exams		✓	✓	N/A	N/A			40%	
Complaint Investigations		✓	✓	N/A	N/A			40%	
Policies and Procedures				✓	✓			29%	
Financial Management									
Cash Management	✓	✓	✓		✓		✓	86%	\$4,103,491 ^b
Fixed Assets	✓	✓	✓	N/A		✓		67%	\$2,330,556 ^c
Travel	✓							14%	\$138,117 ^d
Human Resources									
Performance Appraisals	✓		✓	N/A	✓		✓	67%	\$5,163,544 ^e
FLSA	✓	✓	✓	N/A	✓		✓	83%	
Recruitment and Selection	✓	✓	✓	N/A	✓		✓	83%	
Training				N/A	✓			17%	
Leave Accrual				N/A			✓	17%	
<p>N/A Agencies with N/A do not have the listed function or did not have expenditures in the listed category.</p> <p>^a Total fiscal year 1999 expenditures per the Annual Financial Reports of the agencies with legislative mandates findings.</p> <p>^b Fiscal year 1999 revenues (not including appropriations) per the Annual Financial Reports of the agencies with findings in cash management.</p> <p>^c Fiscal year 1999 fixed asset balances per the Annual Financial Reports of the agencies with findings in fixed assets.</p> <p>^d Fiscal year 1999 travel expenditures per the Annual Financial Report of the agency with findings in travel.</p> <p>^e Fiscal year 1999 expenditures for human resources functions (salaries and wages and payroll-related costs) per the Annual Financial Report of the agencies with findings in human resources.</p>									

Figure 1

Summary of Recommendations From Full Audits
Cosmetology Commission <ul style="list-style-type: none">• Improve procedures for selecting and documenting inspections of licensees, processing cash receipts, documenting travel expenditures, and tagging fixed assets.• Maintain records of recruitment and selection processes, performance appraisals, FLSA statuses, and personnel actions.
Board of Podiatric Medical Examiners <ul style="list-style-type: none">• Comply with state statutes that address the licensing, inspection, and investigation of podiatrists. Follow rules regarding the prompt deposit of funds and the safeguarding of fixed assets.• Develop policies for the recruitment, selection, and evaluation processes, and document employees' FLSA statuses and personnel actions.
Commission on Private Security <ul style="list-style-type: none">• Improve security over one type of licensing exam.• Obtain information on past due investigations, secure incoming payments, and assign and tag fixed assets.• Document recruitment and selection processes and employees' FLSA statuses.
Department of Licensing and Regulation <ul style="list-style-type: none">• Strengthen procedures over fixed assets.
Emancipation Juneteenth Cultural and Historical Commission <ul style="list-style-type: none">• Distinguish operations from other Juneteenth groups to avoid misperceptions regarding its role.• Update planning document.
Aircraft Pooling Board <ul style="list-style-type: none">• Improve processes for hiring and selection.• Document employee evaluations, payroll actions, and the FLSA statuses of employees.• Develop a budget and timeline for its training plan.
Board of Tax Professional Examiners <ul style="list-style-type: none">• Improve process and timelines for cash deposits.• Retain selection files to support employment decisions, align merit increases with performance evaluations, correctly accrue employees' sick and annual leave, and document the FLSA statuses of employees.

Are Small Agencies Monitoring Their Expenditures to Achieve Their Missions?

Most of the agencies audited had established processes for financial management. However, the Cosmetology Commission did not comply with state regulations regarding the preparation and review of travel vouchers. At the Commission, the vouchers in our sample that contained violations of state travel regulations totaled \$15,748.

Cash management was an issue at 86 percent of the agencies. Agencies are not:

- Meeting the three-day deposit rule
- Separating responsibilities for handling cash receipts
- Properly securing cash receipts prior to deposit

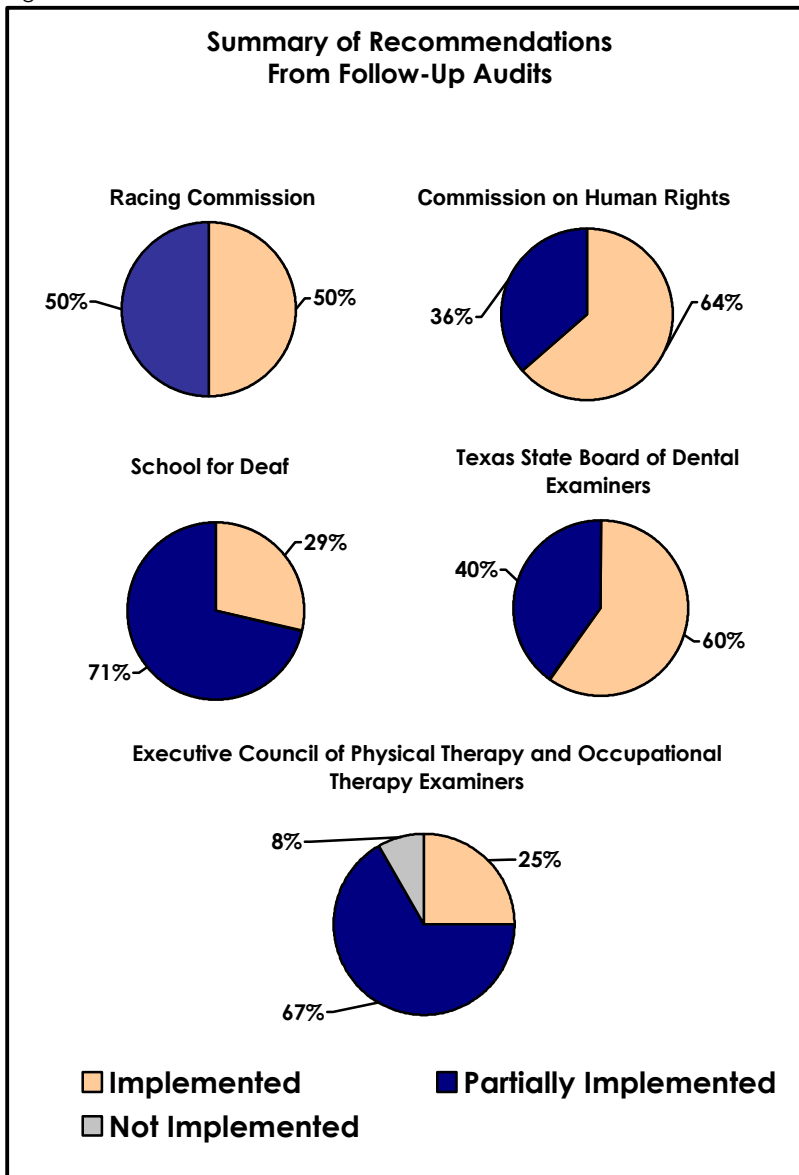
For fiscal year 1999, revenues (not including appropriations from the State's General Revenue Fund) at these agencies totaled over \$4 million.

Fixed assets was an issue at 67 percent of the agencies that we tested. In many cases, fixed assets are not appropriately tagged, and high-risk assets such as computers and cellular phones are not assigned to specific employees. For fiscal year 1999, fixed assets at these agencies totaled over \$2.3 million. (See Table 1 on previous page.)

Results of Follow-Up Audits

We reviewed the status of 51 findings at 5 agencies. Of these, 45 percent of our prior audit recommendations were implemented, and 51 percent were partially implemented. Only one recommendation was not implemented since our last audit; it relates to the Executive Council of Physical Therapy and Occupational Therapy Examiners (Council). The Council did not review the FLSA statuses of its employees. Additionally, certain weaknesses in fixed assets continued at the School for the Deaf (School). The School does not have accurate records for the location of its property. (Figure 2 shows the status of each agency's recommendations.) During our follow-up audit work, we identified four new issues at three agencies. (See Figure 3.)

Figure 2



Racing Commission (Commission)

As of July 1999, the Commission had fully implemented six recommendations (50 percent) from our *1998 Small Agency Management Control Audit* (SAO Report No. 98-035, April 1998). Six recommendations were partially implemented. Some key recommendations implemented include ensuring that annual inspections are performed, that cellular phone charges are monitored, and that travel regulations are followed. The Commission is in the process of implementing recommendations for obtaining licensing information, sanctioning multiple violators, securing financial assets, processing purchase vouchers, documenting training, and deleting unnecessary access to information systems.

Commission on Human Rights (Commission)

As of August 1999, the Commission had fully implemented seven recommendations (64 percent) from the *1997 Small Agency Management Control Audit* (SAO Report No. 97-086, August 1997). Some major improvements include ensuring that travel expenditures are appropriate and that the Commission's accounting system is protected from unauthorized access. Four recommendations were partially implemented. The Commission is in the process of implementing recommendations to deposit cash receipts within three days, reconcile fixed assets to the general ledger, develop an action plan for Historically Underutilized Businesses, and store computer system backups at an off-site location.

Texas State Board of Dental Examiners (Board)

The Board has fully implemented three recommendations and partially implemented two recommendations from the *1997 Small Agency Management Control Audit* (SAO Report No. 97-086, August 1997). As a result, the Board now notifies applicants of Texas Guaranteed Student Loan requirements, has enhanced its controls over the nitrous oxide examinations, and has updated human resource policies and procedures. However, the Board still needs to improve the case resolution process and licensing policies and procedures.

Executive Council of Physical Therapy and Occupational Therapy Examiners (Council)

The Council has implemented three recommendations, partially implemented eight recommendations, and not implemented one recommendation from the *Supplement to the 1995 Small Agency Management Control Audit* (SAO Report No. 96-029, December 1995). The Council has appropriately identified contract workers, documented performance evaluations based on specific criteria, and revised the

human resource personnel manual to include sexual harassment and Americans with Disabilities Act policies. However, the Council needs to continue to improve the following: licensing and investigation functions; access to licensing databases; cash receipts, disbursements, and refund processes; employee timekeeping records; and fixed asset records. The Council has not reviewed the FLSA statuses for employees since the last audit.

School for the Deaf (School)

The School has implemented two recommendations and partially implemented five of the seven recommendations from the *1998*

Figure 3

Follow-Up Audits: New Findings at Three Agencies

Commission on Human Rights: The Commission did not establish sufficient controls over state credit cards. It was determined that one employee charged travel expenditures for two state business trips on the Executive Director's State of Texas American Express account.

Texas State Board of Dental Examiners: The Board does not always address investigators' findings when imposing disciplinary action. In addition, case files do not contain documentation outlining how the Board determines whether to close a case or impose disciplinary action.

School for the Deaf: The School is not accounting for fixed assets correctly, from initial receipt to disposal. In addition, the School is not depositing funds in the Treasury within three business days as required by Government Code, Section 404.094.

Small Agency Management Control Audit (SAO Report No. 98-035, April 1998). The School made some enhancements in the area of financial management, but we found that fixed assets were still not being accounted for properly. We noted that 20 of 34 items tested (59 percent) were not in the location specified in the School's records. Without proper controls over fixed assets, the School cannot ensure that its assets are secure from loss or theft.

The School has made significant improvements in human resources. In addition, the School has implemented a Disaster Recovery Plan as recommended, but some additions are necessary to ensure completeness.

Performance Measures

Of the 79 performance measures reviewed at 12 agencies, 80 percent were Certified or Certified With Qualifications. However, the Executive Council of Physical Therapy and Occupational Therapy Examiners had only 23 percent of its performance measures Certified. Two other agencies had less than 50 percent of their performance measures Certified. The Board of Tax Professional Examiners and the School for the Deaf had 40 percent and 43 percent of their measures Certified, respectively. (See Table 3.) Three agencies achieved full certification of all measures: the Board of Pharmacy, the Aircraft Pooling Board, and the Department of Licensing and Regulation.

Table 3

Performance Measure Results				
Agency	Certified	Certified With Qualifications	Factors Prevented Certification	Inaccurate
Racing Commission ^b	5	0	1	0
Commission on Human Rights ^b	3	1	0	2
Texas State Board of Dental Examiners ^b	5	2	0	1
Executive Council of Physical and Occupational Therapy Examiners ^b	3	3	5	2
School for the Deaf ^c	3	2	0	2
Cosmetology Commission ^b	5	0	0	1
Board of Pharmacy ^b	8	0	0	0
Commission on Private Security ^b	5	0	1	0
Board of Podiatric Medical Examiners ^b	3	2	0	1
Aircraft Pooling Board ^c	3	0	0	0
Board of Tax Professional Examiners ^c	2	3	0	0
Department of Licensing and Regulation ^c	5	0	0	0
Office of Court Administration ^a				
Total: 79	50	13	7	9
Percentage	63.29%	16.46%	8.86%	11.39%
<p>^a We did not review performance measures at this agency, as they are included in a Performance Measures audit currently being conducted.</p> <p>^b For these agencies, we reviewed data for the first three quarters of fiscal year 1999 for output and efficiency measures and fiscal year 1998 data for outcome measures.</p> <p>^c For these agencies, we reviewed fiscal year 1999 data for all measures.</p> <p>Note: The Emancipation Juneteenth Cultural and Historical Commission does not have any performance measures.</p> <p>A measure is Certified if reported performance is accurate within +/-5 percent and if it appears that controls to ensure accuracy are in place for collecting and reporting performance data.</p> <p>A measure is Certified With Qualifications when reported performance appears accurate, but the controls over data collection and reporting are not adequate to ensure continued accuracy.</p> <p>Factors Prevented Certification when actual performance cannot be determined due to inadequate controls.</p> <p>A measure is Inaccurate when reported performance is not within +/-5 percent of actual performance.</p>				

Objective, Scope, and Methodology

Objective

The objective of our audit was to conduct an assessment of the management control systems of the audited agencies to ensure that their legislative mandates are being met and that intended benefits are delivered. We also identified strengths and opportunities to improve controls that might lead to increased performance and accountability. Field work was conducted from July 1999 to December 1999.

We also reviewed the status of prior recommendations at five agencies to determine progress made on those recommendations.

In addition, we examined selected key performance measures to certify that agencies accurately reported performance.

Scope

We conducted a risk assessment of each of the agencies to identify the particular management controls governing their mission-critical functions. The areas we examined at each agency varied, but may have included:

- Financial management
- Licensing and enforcement
- Management information systems
- Human resources
- Statutory functions

Additional work was done to determine the accuracy of certain performance measures selected by the Legislative Budget Board.

At the Board of Pharmacy, we audited only performance measures. The Office of Court Administration audit will be reported separately due to the timing of the audit work.

Methodology

Our methodology consisted of collecting information, performing audit tests and procedures, and analyzing and evaluating the results against established criteria.

Other Information

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

- Sandra Queen, MPA (Project Manager)
- Ann Paul, CPA (Assistant Project Manager)
- Bruce Truitt, MPAff (Quality Control Reviewer)
- Valerie Hill, MBA (Audit Manager)
- Craig Kinton, CPA (Audit Director)
- Doug Binnion, MPA
- Anthony Chavez
- Lisa Collier, CPA
- Sonya Etheridge
- Victoria Harris
- William Hurley, CPA
- Melissa Larson, CIA, CISA
- Angelica Martinez
- Walton Persons, CPA
- Kishaunna Raven, MA
- Elizabeth Scheller, MPA
- Stacey Williams