

INTERNAL AUDIT OF  
BUDGETING PROCESSES

AS OF MARCH 03, 2014

AT THE

TEXAS ANIMAL HEALTH COMMISSION

 **MONDAY N. RUFUS, P.C.**  
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Member: American Institute of Certified Public Accountants

Audit Committee and Commissioners  
And Commissioners  
Austin, Texas

We have evaluated the controls implemented by the Texas Animal Health Commission (Commission) regarding Budgeting Processes as of March 03, 2014. The results of our evaluation disclosed that the Commission has implemented procedures in place to ensure the effectiveness of the Budgeting Processes. The report that accompanies this letter summarizes our comments and recommendations.

We have already discussed this report with various Commission personnel, and we will be pleased to discuss it in further detail at your convenience.

*Monday N. Rufus, P.C.*

March 03, 2014  
Austin, Texas

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## Executive Summary

The Texas Animal Health Commission's (Commission) enabling statutes are in Chapters 161 through 168 of the Texas Agriculture Code, Vernon's Annotated Texas Statutes. The Commission is vested with the responsibility of protecting all livestock, domestic animals, and domestic fowl from diseases stated in the statute, and is authorized to regulate the entry of livestock, domestic animals, and domestic fowl into the state; and control the movement of livestock. The Commission is funded by a combination of state general revenue funds and federal funds from the United States Department of Agriculture (USDA). The Commission's staff of 161 Full-Time-Equivalent (FTEs) is comprised of field inspectors, veterinarians, epidemiologists, laboratory personnel, and administrative staff. The Commission works closely with local, state, federal, livestock producers, industry partners, and the public, on animal health issues. The Commission is also supported by the veterinary community and the USDA to assure proper tracing of the movement of exposed and infected animals to determine the origin of infection and minimize the transmission of disease.

The current budgeting process for State agencies was established in 1992 to allocate state government resources. This process, called Strategic Planning and Budgeting, is a system that is based on the relationships between funding and performance, between accountability and resource allocation, and between spending and results. Major elements of this system are strategic planning, performance-based budgeting, and budget implementation and monitoring.

The Commission receives detail instructions for preparing its operating budget from the Governor's Office of Budget, Planning, and Policy (GOBPP) and the Legislative Budget Board (LBB) for the State of Texas. Based on these instructions the Commission develops a strategic five-year plan, pertinent performance measures, and the request for funds to execute the plan. These documents must be approved by the GOBPP and the LBB and are used to develop budget structure for the Commission. The Commission cannot change the budget structure without the approval of the GOBPP and the LBB.

The Senate and the House of Representatives for the State of Texas must approve the Commission's request for funds, known as the Legislative Appropriations Request (LAR). These two legislative bodies may change the Commission's request. The Commission uses the funds that are appropriated to achieve its vision, mission and goals.

The LBB, GOBPP, and State Comptroller of Public Accounts monitor the Commission's financial activity for budgetary purposes. The Commission has procedures in place to routinely interact with the oversight State agencies and to provide information to managers of the Commission concerning the availability of funds.

## **Internal Audit Results**

The Commission has adequate controls and procedures in place to provide reasonable assurance that the budget is effectively established and adhered to in accordance with the budgetary statutes and guidelines. The Commission has procedures to monitor budget activity in a timely manner. Managers of the Commission are kept informed about the funds available for conducting operations.

## **Detailed Issues and Recommendations**

Internal Controls over budgeting processes of the Commission are generally effective. During our review we noted the following:

- The Commission uses strategic planning as directed by the guidelines from oversight State agencies as the first step in the budgeting process.
- The Commission has established performance measures that are approved by the Legislative Budget Board.
- The Commission has a Strategic Planning Committee comprised of agency management personnel and other staff chosen by the Executive Director whose assigned duties are to draft revisions as needed to the existing Strategic Plan; present the revised Strategic Plan to the Executive Director and Chairman of the Commission for approval; present the Plan to the Commission for review and comment; and present the revisions to the State budget offices for approval.
- The Executive Director and Chairman of the Commission both sign the approved Strategic Plan and submit it to the state budget offices.
- The Commission prepares the required Legislative Budget Request in accordance with guidelines provided by oversight State agencies.
- The Commission has a Budget Team which consists of the Director of Administration, Director of Financial Services/and the Budget Analyst. The Budget Team works with division directors and department heads in preparing and analyzing the Legislative Appropriations Request (LAR) for approval by the Executive Director.
- The Executive Director approves the Budget Team's recommended LAR which is then forwarded to the agency's appointed Commission members for approval. After Commission members approve the LAR is presented by the Executive Director to the State budget offices.
- The State legislature gives final approval to the budget request with the formal appropriation of funds.
- The Commission has an Executive Advisory Team (EAT) comprised of headquarters executive management personnel, two area directors, and one supervising inspector who meet as called by the Executive Director to offer advice related to the operating budget and personnel allocation.
- The Commission prepares and distributes monthly budgetary reports to division directors and department heads.
- All budget category transfers have levels of budget thresholds which are approved by the Division and Department heads, Budget Team, Executive Director, and the appointed Commission members, as appropriate.

- The Commission's Executive Director approves all budget reductions.
- The Commission's monthly budget activity is reconciled to the USAS (Uniform State Accounting System) and ABEST (Automated Budget and Evaluation System of Texas) amounts.
- Expenditures are monitored for efficiency and adherence to the budget on a monthly basis by division directors and department heads. In addition, as an external control, the Legislative Budget Board and the State Comptroller of Public Accounts monitor the Commission's budget activity.
- Budget personnel in the Finance Division are knowledgeable of the budgeting and reporting processes.

There were no deficiencies detected in the budgeting processes that are significant to the objective of this internal audit.

## Appendix 1

### Objective and Scope

#### Objective

The primary objectives of the internal audit were to determine the following:

- *Reliability and Integrity of Information*
- *Compliance with Policies, Procedures, Laws, and Regulations*
- *Efficiency and Effectiveness of operating procedures*
- *Safeguarding of assets*

#### Scope

The scope of internal audit work included interviews, review and/or testing of the Commission's compliance with required legislative budgeting processes.

#### Methodology

Our procedures included collecting information and documentation; performing selected tests and other procedures; analyzing and evaluating the results of the tests; reviewing budgeting policies and procedures, laws, and regulations; conducting interviews with the appropriate staff of the Commission; testing for compliance with policies, procedures and laws, and review of other pertinent reports and documentation.

Information collected and reviewed included the following:

- Instructions for Preparing and Submitting Agency Strategic Plans, Fiscal Years 2013-2017
- Detailed Instructions for 2014-15 Legislative Appropriations Request
- The Commission's 2013-2017 Strategic Plan
- The Commission's Legislative Appropriation for the 2014 – 2015 State Fiscal Years
- The Commission's Fiscal Year 2014 approved Budget.
- Interviews with the Executive Director, Director of Financial Services /Budget Analyst and the Chief Accountant.
- Review of other pertinent reports and documents

Procedures and tests conducted included the following:

- Interviewed Commission executive management to obtain an understanding of the agency's budget processes.

- Gained an understanding of the Commission’s control structure for developing the budget legislative appropriation request.
- Tested for compliance with budget requirements from the Legislative Budget Board (LBB) and the Governor’s Office of Budget, Planning and Policy (GOBPP).
- Tested for compliance with the TAHC Budget Responsibilities and Guidelines
- Tested Commission’s FY 2014 budget appropriated amounts to State Comptroller’s accounts.
- Tested the Commission’s 1<sup>st</sup> Quarter Fiscal Year 2014 budget balances to the Office of the State Comptroller’s Uniform State Accounting System (USAS) and Automated Budget and Evaluation System of Texas (ABEST) records.
- Performed analysis of FY 2014 budget report balances to determine adequacy of funds for remainder of fiscal year.
- Reviewed budget reports and documents given to executive management and the TAHC Commission for monitoring the agency’s fiscal year budget.
- Other pertinent reports and documents

### **Other Information**

Our internal audit was conducted in accordance with *generally accepted government auditing standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our internal audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our internal audit objectives. Our internal audit also conforms with the Institute of Internal Auditor’s (IIA) *International Standards for the Professional Practice of Internal Auditing*.



## Appendix 2

### **Background**

In 1893, the agency was initiated to fight the Texas Cattle Fever epidemic, which had created a nationwide problem. Since then, the Texas Animal Health Commission (Commission) and the United States Department of Agriculture (USDA) have worked cooperatively with livestock producers on animal health issues. In recent years, the agency's primary objectives have been to control and eradicate livestock diseases, such as: Brucellosis in cattle and swine; tuberculosis in cattle; goats and cervidae; hog cholera in swine; pseudorabies in swine; scabies in cattle and sheep; Venezuelan equine encephalomyelitis (VEE); and equine infectious anemia (EIA) in horses.

The Commission's enabling statutes are in Chapters 161 through 168 of the Texas Agriculture Code, Vernon's Annotated Texas Statutes. The Commission is vested with the responsibility of protecting all livestock, domestic animals, and domestic fowl from diseases stated in the statute, or recognized as maladies by the veterinary profession. The Commission is authorized to act to eradicate or control any disease or agency of transmission for any disease that affects livestock, exotic livestock, domestic animals, domestic fowl, exotic fowl, or canines, regardless of whether or not the disease is communicable. In order to carry out these duties and responsibilities, the Commission is authorized to control the sale and distribution of all veterinary biologics, except rabies vaccine; regulate the entry of livestock, domestic animals, and domestic fowl into the state; and control the movement of livestock.

To carry out its mission, the Commission is supported by the veterinary community, competent laboratory system and epidemiology activities which oversee the diagnosis of diseases, and assures appropriate tracing of the movement of exposed and infected animals to determine the origin of infection and minimize the transmission of disease.

The Commission is composed of thirteen members who are appointed by the Governor with the advice and consent of the Senate. The Governor designates the Chair.

The Commissioners appoint an Executive Director who supervises the Commission's activities. The Commission's operating budget is prepared and approved by the Commissioners on an annual basis, whereas the State legislative appropriation request is determined every two years. Both the budget and appropriations are reviewed and approved by the State Legislature.

The Commission is funded by a combination of state general revenue funds, federal funds from the U.S. Department of Agriculture (USDA), and fee-based revenue. For fiscal year 2014 the Commission has an authorized workforce of 161.0 full-time equivalent employees (FTEs). The Commission's staff is comprised of field inspectors, veterinarians, veterinary epidemiologists, laboratory personnel, emergency management planners, field investigators, and administrative staff.

## Appendix 3

### **Report Distribution**

As required by Gov't Code 2102.0091 copies of this report should be filed with the following:

#### **Governor's Office of Budget and Planning**

Attn: Kathy McGrath  
internalaudits@governor.state.tx.us

#### **Legislative Budget Board**

Attn: Ed Osner  
Ed.Osner@lbb.state.tx.us

#### **State Auditor's Office**

Attn: Internal Audit Coordinator  
iaordinator@sao.state.tx.us

#### **Sunset Advisory Commission**

Attn: Ken Levine  
sun@sunset.state.tx.us

#### **Texas Animal Health Commission**

Ernie Morales, Chairman  
Brandon Bouma  
William Edmiston, Jr., D.V.M  
Ken Jordan  
Thomas "Tommy" Kezar  
Joe L. Leathers  
Coleman Hudgins Locke  
Thomas E. Oates  
Ralph Simmons  
Mike Vickers, D.V.M.  
Beau White  
Eric D. White  
Jay R. Winter

#### **Texas Animal Health Commission Management**

Dee Ellis, D.V.M., Executive Director