

**AUDIT FOLLOW-UP: INTERNAL AUDIT OF THE
POST PAYMENT AUDIT – AUSTIN, TEXAS
AS OF AUGUST 12, 2016
AT THE
TEXAS ANIMAL HEALTH COMMISSION
(Report No: TAHC 016-005)**



MONDAY RUFUS & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS



MONDAY RUFUS & CO., P.C.
Certified Public Accountants & Advisors

Audit Committee
and Commissioners
Texas Animal Health Commission
Austin, Texas

We have reviewed the status of the Comptroller's Post Payment Audit Recommendations (*Original Report Date: August 26, 2014*) as of August 12, 2016.

The accompanying schedules summarize our original finding and recommendation, current status, and remarks.

We appreciate the courtesy and cooperation shown by the management of the Agency during the course of the engagement.

Monday Rufus & Co., P.C.

August 12, 2016
Austin, Texas

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Executive Summary

The Texas Animal Health Commission (Commission) enabling statutes are in Chapter 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 entry of livestock, domestic animals, and domestic fowl into the state; and control the movement of livestock. The Commission 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 issues. The Commission is also supported by the veterinary community and the United States Department of Agriculture (USDA) to assure proper tracing of movement of exposed and infected animals to determine the origin of infections and minimize the transmission of disease.

Internal Audit Results

The scope of this follow-up was limited to determining the status of the findings and recommendations included in the Comptroller's Post-Payment Audit (*Report Date: August 26, 2014*).

Appendix I summarizes and provides the status and steps taken by the management of the Commission to the recommendations made in the report.

Appendix 1:

ENTITY: Texas Animal Health Commission

PROJECT: Follow-up on the Comptroller’s Post-Payment Audit Recommendations (Report Date: August 26, 2014)

FISCAL YEAR: 2016

| PRIOR FINDINGS/RECOMMENDATIONS (issued by the prior Internal Auditor) | CURRENT STATUS | AUDITORS’ REMARKS |
|---|----------------|--|
| <p>Finding 1: Additional Bids Not Obtained</p> <p><u>Recommendation:</u></p> <p>The Commission must obtain bids from qualified vendors for all goods and services exceeding \$5,000.00</p> <p><i>Management Response</i></p> <p>All purchases for goods and services exceeding \$5,000 will have the necessary three bids obtained and documented, prior to purchase. Budgeting personnel will verify this documentation during the budgetary approval portion of the procurement process.</p> | <p>I</p> | <p>Internal auditor met with the Assistant Director of Financial Services (Assistant Director) to inquire about the controls implemented to ensure that all purchases exceeding \$5,000 have the necessary bids from qualified vendors. Per the Assistant Director, an authorized staff of the Financial Services Division verifies that goods and services exceeding \$5,000 have the appropriate supporting documentation, whether multiple (at least three) quotes, or from a contracted vendor prior to approval of the purchase. The internal auditor obtained and selected a sample of disbursement vouchers processed in fiscal year 2016. Identified the disbursements exceeding \$5,000, selected a sample and tested for documentation of bids, as appropriate.</p> <p>No exceptions were noted. There was documentation of bids for all items selected and tested. No further work is deemed necessary in this area at this time.</p> |

| PRIOR FINDINGS/RECOMMENDATIONS (issued by the prior Internal Auditor) | CURRENT STATUS | AUDITORS' REMARKS |
|--|----------------|--|
| <p><u>Finding2:</u> Purchase Order Created After Invoice</p> <p><u>Recommendation:</u></p> <p>The Commission must ensure that its procedures are followed. While a formal purchase order is not required, the Commission must ensure that documentation of the purchase agreement is prepared at the time the Commission orders the goods or services.</p> <p>Management Response</p> <p>Agency personnel, authorized to buy items on behalf of the Commission will be reminded that the purchase documentation MUST be completed and submitted for approval prior to making the purchase.</p> | <p>I</p> | <p>Internal Auditor met the Assistant Director of Financial Services and inquired about the controls implemented to ensure a purchase order is created prior to making a purchase. Per the Assistant Director, all purchases require prior approval by an authorized staff of Financial Services Division.</p> <p>The internal auditor tested a sample of disbursement vouchers processed in fiscal year 2016 and to determine if a purchase order was created prior to making each purchase.</p> <p>No exceptions were noted. For each item tested, there was documentation of creation of a purchase order prior to making the purchase.</p> <p>No further work is deemed necessary in this area at this time.</p> |

I = Implemented

P = Partially Implemented

N = Not Implemented

| PRIOR FINDINGS/RECOMMENDATIONS (issued by the prior Internal Auditor) | CURRENT STATUS | AUDITORS' REMARKS |
|---|-----------------|--|
| <p>Finding 3: Employee Retained Ability to Expend Funds After Termination</p> <p><u>Recommendation:</u></p> <p>The Commission must ensure that the person responsible for sending termination notifications to the Comptroller's office:</p> <ul style="list-style-type: none"> • Is aware of the designated employee's termination on or before the termination becomes effective, • Follows through with the Comptroller's office to ensure the receipt of the notification and • Checks to ensure that the revocation occurred. <p>Management Response</p> <p>TAHC will terminate an employee's access to USAS/USPS, including security, effective on or before the employee's termination date.</p> | <p>I</p> | <p>Internal Auditor met the Assistant Director of Financial Services (Assistant Director) and inquired about the controls implemented to ensure terminated employees do not retain the ability to expend funds. Per the Assistant Director, upon receiving an email notice of employee employment separation, the agency's security coordinator and alternate coordinator would verify whether or not the separating employee has USAS/USPS access. If the separating employee does have USA/USPS access, the security coordinator takes note of the employee's last day of work set a reminder to ensure that the request to terminate said employee's access is submitted timely to the Comptroller's Office. The internal auditor obtained a list of employees terminated from January 1, 2015 through May 2016. Identified those with cash disbursement privileges and determined the date of termination and last day of work. Obtained a copy of notification sent to the Comptroller's Office to terminate access to USAS/USPS, as appropriate. We noted that notification was sent on or prior to each employee's termination date or last day of work, as appropriate. Additionally, we reviewed supporting documentation indicating that access had been terminated.</p> <p>No exceptions were noted. No further work is deemed necessary in this area at this time.</p> |

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| PRIOR FINDINGS/RECOMMENDATIONS (issued by the prior Internal Auditor) | CURRENT STATUS | AUDITORS' REMARKS |
|--|----------------|---|
| <p><u>Finding 4: Control Weakness Over Expenditure Processing</u></p> <p><u>Recommendation:</u></p> <p>The Commission should review the controls over expenditures processing and segregate each task to the extent possible to ensure that no individual is able to process payments without oversight.</p> <p>Management Response</p> <p>USAS security was already established so that no one individual can .both enter and release batches. TAHC has removed the individuals who have authority to release vouchers in USAS/USPS from Agency Authorization for Warrant Pickup form (#74-189). No individual is able to enter a transaction into USAS or USPS and release within that same system. Furthermore, TAHC warrants are normally picked up by the Procurement and Support Services Division of the Comptroller of Public Accounts.</p> <p>All daily registers, (Warrant, ITV and Direct Deposit) are reviewed daily by multiple employees in the department, and this process would detect inappropriate activity.</p> <p>The Financial Services Department at the TAHC is a small staff and due to this it is difficult to completely separate all duties. The TAHC is willing to accept the risk associated with the individuals who have authority to adjust payment instructions in TINS and to approve paper vouchers. Detection of inappropriate activity will be possible as a result of agency procedures. These procedures include requiring the documentation of changes to payment instructions via the completion of a payee change request form, the approval of that form by a second individual, entry into TINS by third individual, and verifications of payments on daily run reports.</p> | <p>I</p> | <p>The Internal Auditor met the Assistant Director of Financial Services (Assistant Director) and inquired about the controls implemented to ensure that no one individual is able to process without oversight. Per the Assistant Director, no individual is able to enter a transaction into USAS or USPS and release within the same system. Daily registers are reviewed by multiple individuals daily. Although one individual could be authorized to adjust payment instructions in TINS and also approve paper vouchers, he or she is not allowed to enter batches into USAS.</p> <p>The internal auditor tested a sample of cash disbursements processed in fiscal year 2016 to determine if payments were entered by individuals separate from those with rights to release payment on USAS. Additionally, the internal auditor noted that management has implemented a procedure requiring a review of the USAS daily run reports by the accountant who entered the payment data. The accountant is required to initial each disbursement and sign the report page. If all payment data on a specific daily report were entered by one accountant, another accountant would review and sign the report as well. The internal auditor obtained a sample of the daily run reports and tested for compliance with this policy. No exceptions were noted.</p> <p>No further work is deemed necessary in this area at this time.</p> |

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Appendix 2

Objective and Scope

Objective

The objective of this internal audit follow-up was limited to following up on the finding and recommendation included in the audit of the TAHC Austin Office (Original Report Date: August 26, 2014).

Scope

Our procedures included reviewing the previous audit report, inquiring about the status of the report's recommendation, meeting with Commission management, obtaining supporting documentation, and verifying the information.

Methodology

The internal auditor met with the Texas Animal Health Commission headquarters regarding the respective audit follow-up to determine the current status of the prior audit finding, recommendation, and corrective action(s) taken by management for the TAHC Austin Office original audit report.

Information collected and reviewed included the following:

- Original Audit Reports for:
 - Internal Audit of the TAHC Austin Office (Dated August 26,2014)
- Reviewed corrective action plan that addresses the instances of errors detailed in the Texas Comptroller of Public Accounts.
- Meet with management personnel and obtained an understanding of procurement procedures for goods and services in excess of \$5,000.
- Meet with management personnel to obtain understanding of procedures being followed for purchased documentation to be completed before approval of the purchase.
- Meet with management to obtain an understanding of the procedures followed for all termination notifications sent to the security coordinator to ensure timely removal of access of terminated employees. Verified that TAHC was terminating employee access to USAS/USPS effective on or before employee's termination date.
- Meet with management personnel to obtain understanding of controls over expenditure processing that segregates each accounting task to the greatest extent possible.
- Reviewed SFS Users Semiannual Security Access Attestation.

Procedures and tests conducted included the following:

- Met with Commission management to discuss the current status of the prior audit report's recommendations and corrective actions.
- Reviewed corrective action plan that addresses the instances of errors detailed in the Texas Comptroller of Public Accounts Post Payment Audit.
- Tested a sample of disbursement vouchers exceeding \$5,000 and processed in fiscal year 2016 for documentation of bids, as appropriate
- Tested a sample of disbursement vouchers processed in fiscal year 2016 to determine if a purchase order was created prior to making each purchase.
- Obtained a list of employees terminated from January 1, 2015 through May 2016. Identified those with cash disbursement privileges and determined the date of termination and last day of work. Obtained a copy of notification sent to the Comptroller's Office to terminate access to USAS/USPS, as appropriate.
- Tested a sample of cash disbursements processed in fiscal year 2016 to determine if payments were entered by individuals separate from those with rights to release payment on USAS. Additionally, obtained a sample of the daily run reports and tested for review by someone with no voucher approval and TINS adjustment responsibilities.

Criteria Used included the following:

- Uniform Statewide Accounting System – Purchase Category Codes
- Texas Comptroller of Public Accounts Cost Object Codes
- List of TAHC personnel authorized to participate in the cash disbursement processing functions
- Review of 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 3

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.

Appendix 4

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: Contract Manager
Contract.Manager@lbb.state.tx.us

State Auditor's Office

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iacoordinator@sao.state.tx.us

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Thomas E. Oates
Stephen Selman
Leo D. Vermedahl
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