

INTERNAL AUDIT OF THE
REGION 2 OFFICE – HEMPSTEAD, TEXAS

AS OF APRIL 26, 2017

AT THE
TEXAS ANIMAL HEALTH COMMISSION

(Report No: TAHC 017-001)



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 conducted an internal audit (audit) of the Region 2 Office (Hempstead, Texas) of the Texas Animal Health Commission (Commission) with respect to the reliability and integrity of information, compliance with rules, policies, procedures, laws, and regulations, safeguarding of assets, and the efficiency and effectiveness of operating procedures as of April 26, 2017. The results of our tests disclosed that, generally, the region has adequate controls in place to ensure the reliability and integrity of information, compliance with rules, policies, procedures, laws, and regulations, safeguarding of assets, and the efficiency and effectiveness of operating procedures. However, we did observe some opportunities for improving the operations.

We appreciate the courtesy and cooperation the management of the commission showed during the course of the engagement.

Monday Rufus & Co., P.C.

April 26, 2017
Austin, Texas



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Executive Summary

There are eight region offices in Field Operations. The Region 2 Office (Region) is located in Hempstead, Texas and is staffed with nine (9) employees, including the Region Director, Supervising Inspector, and two support staff. The objective of the Region is to conduct field activities of the Commission through procedures, systems and data automation programs that have been set up to help locate infected and infested animals and herds, and keep records of such herds and the disposition of animals from those herds.

A primary responsibility of the inspectors is to oversee the handling and testing of animals at the livestock auctions. There were 13 active markets in Region 2 as of April 26, 2017. The Region 2 Office also covers a total of 24 counties in the State of Texas. **Appendix 3** shows a list of Region 2 counties. In 2014, 2015, and 2016 a total of 4,025,075, 3,705,433 and 4,012,425 animals were processed through these markets, respectively. **Appendix 4** provides more detailed information on the livestock markets.

The Region 2 Office Director, who is a veterinarian, is responsible for and oversees all of the activities administered through the Region 2 Office relating to Animal Health Program work in cooperation with USDA-APHIS-VS and TAHC Central Office in Austin. A Supervising Inspector, who is charged with the responsibility of coordinating and supervising the work of the inspectors and administrative support staff, assists the Director, and is tasked with general office management of the Region 2 Office.

The inspectors oversee the testing of animals at livestock markets and conduct blood tests for livestock owners who desire to meet certain testing and monitoring requirements for their herds. The inspectors follow-up on certificates of veterinary inspection for livestock (domestic and exotic) entering, leaving, and moving within the state. The inspectors also follow-up on permits issued for livestock entering the state and provide information on the Commission's regulations as well as other states' livestock movement requirements. The inspectors communicate regularly with herd owners and their veterinarians.

The Commission, in cooperation with the USDA-Veterinary Services (Austin, Texas) is charged with disease surveillance, epidemiology, and resolution for livestock producers in the state. The Surveillance Cooperative Services Database (SCS) was developed by the federal government to assist states in the entry and retrieval of surveillance and herd test data for livestock diseases. The Region 2 Office utilizes the SCS to provide field operations, epidemiologists, staff, and commissioners with timely and accurate data.

Internal Audit Results

Generally, the Region 2 Office has adequate controls in place to ensure the reliability and integrity of information, compliance with rules, policies, procedures, laws, and regulations, safeguarding of assets, and the efficiency and effectiveness of operating procedures. However, controls over data entry into the SCS data system should be enhanced, employees' annual performance evaluations should be conducted timely, and controls over disbursements from petty cash should be enhanced.

There were no other deficiencies detected in the audit of the Region 2 Office that are significant to the objectives of this audit. Any insignificant issues noted have been communicated to the management of the Commission as required by *Government Auditing Standards*.



Summary of Management's Response

*. Region 2 support staff have been instructed to initial and **date any information entered into the system.** Additionally, with the implementation of the CAPPs system, the regional offices will no longer use a petty cash account. Finally, all purchases will flow through the financial services for approval. With the implementation of the CAPPs system, the regional offices will no longer use a petty cash account. All purchases will flow through the financial services for approval.*



Objectives, Results, Recommendations, and Management's Responses

The primary objectives of the internal audit were:

1. Reliability and Integrity of Information
2. Compliance with Policies, Procedures, Laws, and Regulations
3. Safeguarding of Assets
4. Efficiency and Effectiveness of Operating Procedures

RESULTS AND RECOMMENDATIONS

Internal Audit Objective 1: Reliability and Integrity of Information.

Finding 1: Controls Over Data Entry Should Be Enhanced

Criteria:

Proper internal controls ensure data received are documented at the point of receipt, and when the information is entered into SCS, the input document should be defaced showing when the date the data entry. This provides reasonable assurance of proper accountability.

Condition:

Internal Controls were not properly designed related to input data. When test charts are received by the Region Office, they are stamped showing the date of receipt. This is a good control. This control could be enhanced when there the input documents are defaced at the point of data entry. This would be provide reasonable assurance of proper accountability

Cause:

Internal controls were not properly designed related to input data.

Effect:

Due to the lack of adequate control related to data input, it might be difficult to establish accountability.

Recommendation:



Region 2 Office should enhance controls related to the data input to ensure proper accountability. An example would be having the data entry person include his/her initial and date on input document upon entry into the SCS.

Management's Response: *Region 2 support staff have been instructed to initial and **date any information entered into the system.***

Title of person responsible for implementation: *Supervising Inspector*

Completion Date: *Immediately*

Internal Audit Objective 2: Compliance with Policies, Procedures, Laws, and Regulations

The Region 2 Office is in compliance with the Commission's E-permits standard operating procedures under Texas Administrative Code (TAC), Chapter 51 – Entry Requirements which require inspectors to document the status of each E-permit by the end of the 30th day. Auditors randomly tested 20 E-permits from a total of 332 E-permits reported verified for the period of 01/01/2016 thru 12/31/2016. All the E-permits tested had been verified within the first 30 days with no exceptions.

Weekly Activity Reports are being properly prepared by Region 2 Office personnel which are reviewed and approved by management. Auditors tested Weekly Activity Reports of seven (7) of the nine (9) Region 2 Office employees for the two months of 03/06-26/2016 and 03/05-25/2017. No exceptions were noted.

Finding 2. Annual Employee Performance Evaluations Are Not Being Consistently Conducted

Criteria:

The Texas Animal Health Commission Policies and Procedures manual requires the Commission to conduct performance evaluations once a year on the anniversary date of the employee's last performance evaluation.

Condition:

During our audit of the Commission's personnel files we noted that eight (8) of the nine (9) employees in Region 2 had not had an annual performance evaluation, within the last 12 months and longer, including the Region 2 director who had not been evaluated in the last 56 months.

Cause:

Region 2 Office management acknowledged that they were behind in conducting annual employee performance evaluations, due to resource constraints.



Effect:

Without a timely evaluation of employee performance, the following risks are present:

- Employees may be unaware of good performance or substandard performance.
- Employment action decisions such as promotion, demotion, termination, and merit raises may not be supported by sufficient and documented performance information.
- Employees may not receive needed training and development to improve performance and to address performance issues.

Recommendation:

We recommend that the Commission institute controls to ensure that employees are evaluated in a timely manner in accordance with written policy.

Management Response: All evaluations have been updated and special effort will be made to keep evaluations current.

Title of person responsible for implementation: Supervising Inspector

Estimated Completion Date: End of June 2017

Internal Audit Objective 3: Safeguarding of Assets.

Region 2 Office state assets are being properly used and accounted for, and in their assigned location. During the audit, auditors tested a sample of 17 personal property items from a total of 170 fixed assets assigned to the Region 2 Office personnel as of August 31, 2016. No exceptions were noted.

Finding 3: Controls Over Disbursements from Petty Cash Should Be Enhanced

Criteria:

Proper internal controls ensure disbursements are properly documented. Region 2 office is reconciling the petty cash checkbook in a timely basis as required by the Petty Cash Policy of the Texas Animal Health Commission. Additionally, the checkbook is adequately secured, and reimbursements tested were adequately supported, except as stated below.



Condition:

There was an instance where a payment of \$200 was made to a relation of a Region 2 Inspector for a Bearing repairs on a Scratching Chute. Auditors inquired about the processes for procurement, we were informed that the payee's brother who is an Inspector called around and noted that the aforesaid relation had the lowest bid for the repairs. We were also informed that the Financial Services approved the expenditure. However, we noted no documentation in the files regarding the bids obtained and the financial services' approval. Although the payment was made through a petty cash fund, a good control would be to ensure proper documentation of the procurement processes and approval of payment, especially when a related party is involved in the transaction. This would provide reasonable assurance of mitigation of any potential irregularities.

Cause:

The lack of training regarding the documentation of purchasing decisions any exceptions when petty cash funds are used.

Effect:

Due to the lack of proper documentation, there is a risk of improper purchases.

Recommendation:

Region 2 Office should institute controls to ensure petty cash disbursements are properly documented consistently.

Management's Response: *With the implementation of the CAPPS system, the regional offices will no longer use a petty cash account. All purchases will flow through the financial services for approval.*

Person responsible for implementation: *Director, Financial and Procurement Services*

Estimated Completion Date: *July 2017*

Internal Audit Objective 4: Efficiency and Effectiveness of Operating Procedures.

Weekly Activity Reports are being properly prepared by Region 2 Office personnel which are reviewed and approved by management.



Appendix 1

Objective and Scope, and Methodology

Objective

The primary objective of the audit was to evaluate the following:

- *Reliability and Integrity of Information*
- *Compliance with Policies, Procedures, Laws, and Regulations*
- *Safeguarding of Assets*
- *Efficiency and Effectiveness of Operating Procedures*

Scope

The audit scope of the internal audit work included ensuring compliance with the Texas Agriculture Code, Texas Animal Health Commission rules, Region 2 Office operating policies and procedures. The scope included interviews with Region 2 Office Director, Supervising Inspector and Office staff. Inspector reports, E-permits, Surveillance Cooperative Services Data Base information, and other pertinent reports and documents were reviewed and tested for accuracy and compliance.

Methodology

The Region 2 Office management risk assessment questionnaires were completed related to the Office functions to assist in obtaining information in identifying controls which are in place regarding Region 2 Office operations and reporting of data and information to Commission headquarters.

Information collected and reviewed included the following:

- List of employees and dates of employment
- List of inspectors and their assigned markets and designated headquarters
- Agency policies and procedures, rules, and regulations for field offices
- List of terminated employees in fiscal year 2016
- List of assigned fixed assets in inventory as of August 31, 2016
- General Appropriation Act (FY 2016-2017)
- Texas Animal Health Commission Website

Procedures and tests conducted included the following:

- Interviewed Commission management and staff to obtain an understanding of the Region 2 Office functions and activities and controls in place.



- Obtained, reviewed, and tested employees' Supervisor Activity Reports and supporting documentation for management approval and accuracy.
- Tested for accuracy and reliability of information being entered into the Surveillance Cooperative Services Data Base system.
- Tested for accuracy, reliability, and timing of entry permits (E-permit) information processed and entered into the Commission's Permit Tracker report
- Tested random sample of fixed assets and communicated with inspectors as to safeguarding their assigned assets.

Criteria Used included the following:

- Chapter 161 through 168 of the Texas Agriculture Code, Vernon's Annotated Texas Statutes
- Texas Animal Health Commission Intranet Policies and Procedures
- State Comptrollers Inventory Report for the Texas Animal Health Commission
- Commission's Website
- 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 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 2016 the Commission had 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

List of Region 2 Office Counties



Counties – 24

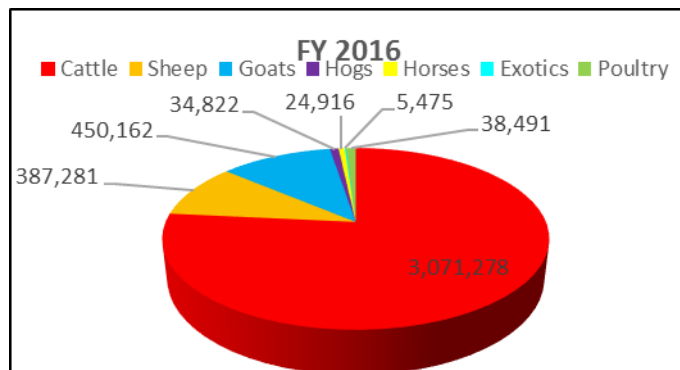
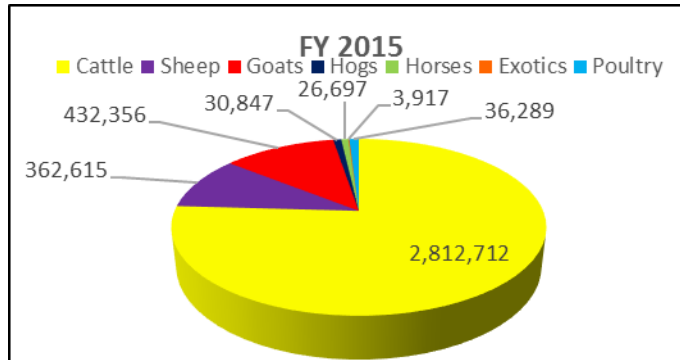
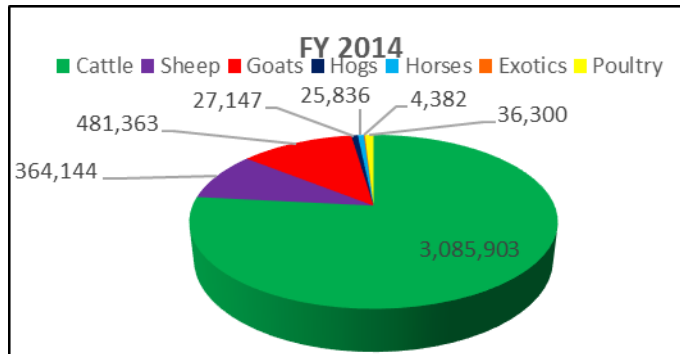
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|-----------|-----------|------------|-------------|
| Austin | Galveston | Liberty | San Jacinto |
| Brazoria | Hardin | Matagorda | Tyler |
| Calhoun | Harris | Montgomery | Victoria |
| Chambers | Jackson | Newton | Walker |
| Colorado | Jasper | Orange | Waller |
| Fort Bend | Jefferson | Polk | Wharton |



Appendix 4

Summary of Auctions (Unaudited)

	FY 2014	FY 2015	FY 2016	Total
Cattle	3,085,903	2,812,712	3,071,278	8,969,893
Sheep	364,144	362,615	387,281	1,114,040
Goats	481,363	432,356	450,162	1,363,881
Hogs	27,147	30,847	34,822	92,816
Horses	25,836	26,697	24,916	77,449
Exotics	4,382	3,917	5,475	13,774
Poultry	36,300	36,289	38,491	111,080
Total	4,025,075	3,705,433	4,012,425	11,742,933





Appendix 5

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: Drew Deberry
Phone: (512) 463-1778
Budgetandpolicyreports@governor.state.tx.us

Legislative Budget Board

Attn: Julie Ivie
Phone: (512) 463-1200
Audit@lbb.state.tx.us

State Auditor's Office

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

Sunset Advisory Commission

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