

# **TEXAS ANIMAL HEALTH COMMISSION**

**INTERNAL AUDIT PLAN - FISCAL YEARS 2017 - 2018**

**MONDAY RUFUS & CO., P.C.**  
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**TEXAS ANIMAL HEALTH COMMISSION**  
**Internal Audit Plan – Fiscal Years 2017 - 2018**

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**Certified Public Accountants & Advisors**  
Member: American Institute of Certified Public Accountants

October 20, 2016

Audit Committee  
and Commissioners  
Texas Animal Health Commission  
Austin, Texas

Dear Commissioners:

As required by the Internal Auditing Act (Texas Government Code, Section 2102.008), we have prepared the audit plan for fiscal years 2017 and 2018.

We prepared a risk assessment to determine the areas in the Texas Animal Health Commission that should be considered for audit. Based on that risk assessment, the following areas are recommended for audit in Fiscal Years 2017 and 2018, respectively:

<u>Fiscal Year 2017</u>	<u>Estimated Hours</u>
Region 3 Office (Ft. Worth, TX)	180
Region 2 Office (Hempstead, TX)	180
Follow-up on Prior Internal Audit Recommendations (FY 2015)	160
Total Hours	<u>520</u>

<u>Fiscal Year 2018</u>	<u>Estimated Hours</u>
Personnel Processes	140
Region 8 Office (Laredo, TX)	180
Information Systems - Security	140
Follow-up on Prior Internal Audit Recommendations (FY 2016)	140
Total Hours	<u>600</u>

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Your approval of the areas above will enable us to commence audit activities for fiscal years 2017 and 2018.

Sincerely,



Monday N. Rufus, MBA, CISA, CPA  
Audit Director  
MONDAY RUFUS & CO., P.C., CPAs

CC:   1. Dr. Andy Schwartz, D.V.M., Executive Director  
      2. Dr. T.R. Lansford III, Assistant Executive Director, Animal Programs  
      3. Gene Snelson, General Counsel/Chief Audit Executive  
      4. Larissa Schmidt, Director for Administration

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# TEXAS ANIMAL HEALTH COMMISSION

## Internal Audit Plan – Fiscal Years 2017 - 2018

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### **I. Purpose**

The Purpose of this internal audit plan is to document the development, risk assessment, scope of assignments and implementation timetable for fiscal years 2017 and 2018 internal audit activities. This document will serve as a primary tool to carry out internal audit responsibilities in an efficient manner and prioritize the audit areas based on risk assessments agreed to by the Commissioners of the Texas Animal Health Commission (TAHC). Due to the nature, scope and timing of audit procedures contemplated here, planning for specific aspects of the audits is a continuing process. Accordingly, the plan will be revised as necessary and reviewed at least annually.

This plan has been prepared to meet planning guidelines as required by both generally accepted auditing standards and conforms to the *International Standards for the Professional Practice of Internal Auditing* as determined by the Institute of Internal Auditors, Inc.

### **II. Background Information**

In 1893 the Texas Legislature established the Texas Livestock Sanitary Commission to fight the tick fever epidemic which threatened to cripple the economic viability of the state's cattle industry. In 1959 the agency was renamed the Texas Animal Health Commission (TAHC). The Legislature has been increasing the agency's animal health responsibilities beyond cattle and today the TAHC's key functions in addressing diseases and parasites in animals and emergency management are:

- Prevention
- Surveillance
- Diagnosis
- Control
- Eradication
- Emergency Management/Homeland Security

The TAHC, as a livestock and poultry health agency, also provides services to key groups which include:

- Private practice veterinarians
- Cattle producers/feeders
- Poultry producers
- Swine producers
- Exotic livestock and fowl producers
- Auction markets,
- Livestock shows and rodeos
- Stakeholders organizations
- Equestrian
- Non-profit response organizations
- Local governments

The TAHC and the United States Department of Agriculture (USDA) work together in a cooperative relationship for most disease surveillance, animal health, and emergency response programs.

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The Texas Animal Health 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 as 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 TAHC 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 Texas Animal Health 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 TAHC's activities. The Executive Director also serves as the chief veterinarian of the state of Texas and works in concert with the Commissioners, animal producers, and allied industry groups to oversee Texas livestock and poultry regulatory functions to ensure that agency business is conducted in a responsive, cooperative, and transparent manner.

The TAHC's operating budget is prepared and approved by the Commission 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 Agency is divided into three divisions. The three operating divisions are the Animal Health Programs Division, the Laboratory System, and Administrative Division, all of which report directly to the Executive Director. The Executive Division, which is headed by the Executive Director, is comprised of Legal and Compliance, Public Information, and Governmental/Industry Relations.

The TAHC is funded by a combination of state general revenue funds, federal funds (USDA), and fee based revenue. For fiscal year 2015 the TAHC has an authorized workforce of 161 full-time equivalent employees (FTEs). The number of TAHC staff is comprised of field inspectors, veterinarians, veterinary epidemiologists, laboratory personnel, emergency management planners, field investigators and administrative staff.

### A. Divisional Information

- i. **Administrative**— The Administrative Division is responsible for all support activities for the Agency. It includes the Finance and Procurement Services, Information Technology, Human Resources, and Staff Services/Fleet Management. The Director of Administration oversees these functions.

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The Financial Services Department manages the budget and accounting, and payroll functions of the Agency. This department is also responsible for financial reporting such as the Annual Financial Report and the Legislative Appropriations Request.

The Information Resources Department supports all hardware and software necessary for the day-to-day activities of the Agency. This Department is also responsible for developing and maintaining the Agency's network, database, and web site.

The Staff Services Department is responsible for procurement of goods, mail services, and printing.

- ii **Animal Health Programs** - The Animal Health Division includes the seven Region Offices and the program records. The Region Offices are located throughout the State: Amarillo (Region 1); Hempstead (Region 2); Fort Worth (Region 3); Mount Pleasant (Region 4); Beeville (Region 5); Lampasas (Region 6); Rockdale (Region 7); Laredo (Region 8); Emergency Management, and the Staff/Authorized Personnel Program Manager.

The Region Offices have the responsibility for administering at the local level all disease programs related to the strategies for their respective geographic regions. These offices are headed by Veterinarians (Region Directors) under the direction of the Assistant Executive Director for Animal Health Programs. The responsibilities also include herds and issuance of permits for quarantined handling facilities. This Department also oversees interstate permit issuance and coordinating verification of these permits and required certificates. These activities also include processing outgoing certificates of veterinary inspection. The Region Offices which are headed by Veterinarians (Region Directors), Emergency Management, and the Staff/Authorized Personnel Program Manager are under the direction of the Assistant Executive Director for Animal Health Programs.

- iii **State Epidemiology, Laboratories, Animal Disease Traceability, and Program Records** - is responsible for providing epidemiological support to field operations, assists in the diagnosis and classification of animals, and approves deviations from prescribed standards when necessary. The Laboratory system consists of a central facility in Austin and a satellite laboratory located in Fort Worth, Texas. The laboratories conduct serological testing of blood/milk and culture procedures for the causative agents of brucellosis. Program Records staff receive, input into databases, and maintain records necessary to document specific state and federal disease eradicating program activities. Program Records also issues and monitors Texas entry (E-Permits) for domestic and exotic animals and fowl entering Texas from other states. The Assistant Executive Director for State Epidemiology oversees these functions.

**Executive** – The Executive Division includes the Office of the Executive Director, Administration, Legal and Compliance, Animal Health Programs, and State Epidemiology, and Communications Division.

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The Office of the Executive Director is headed by the Executive Director who is responsible for the day-to-day operation of the Agency. The Executive Director reports to the Commissioners of the Texas Animal Health Commission.

The Legal and Compliance section includes the General Counsel who provides agency legal support and oversight of investigations that follow up on reports of violations of agency regulations and state statutes. This section also compiles statistics regarding compliance actions taken and transportation enforcement efforts. The General Counsel is also responsible for the Agency's risk management and serves as the Agency's Chief Audit Executive.

Animal Disease Traceability is responsible for maintaining disease program statistics and administering various programs including brucellosis certified free.

**Communications**-The Communications Director provides information related to the services of the Agency.

B. The Agency's initial appropriations for the fiscal year 2016 and 2017 are as follows:

	<u>For the Year Ending</u> <u>August 31, 2016</u>	<u>For the Year Ending</u> <u>August 31, 2017</u>
Salaries and Wages	\$9,163,419	\$9,188,419
Other Personnel Costs	269,381	269,381
Professional Fees and Services	58,821	58,821
Fuels and Lubrications	413,800	413,800
Consumable Supplies	113,475	113,475
Utilities	365,394	365,394
Travel	943,113	943,113
Rent – Building	554,229	554,339
Rent – Machine and Other	93,830	93,830
Other Operating Expenses	667,278	580,765
Capital Expenditures	<u>997,704</u>	<u>246,573</u>
 Total Appropriated Budget	 \$13,640,554	 \$12,827,910
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**III. Internal Audit Plan Methodology**

This section summarizes the methodology used in preparing the internal audit plan. In order to understand the Agency and develop our risk assessment process, we reviewed the Agency's:

- Enabling Legislation
- Strategic plan
- Legislative appropriations request/operating budget
- Prior internal audit reports
- Reports from the State Auditor's Office
- Sunset Commission Report
- Other documents obtained from the Agency

We made inquiries of key personnel of the TAHC. The main purpose of our inquiries was to obtain a generalized overview of how each division fits financially and non-financially into the framework of the Agency. One of the major factors in performing our inquiries, rather than relying solely on the amounts budgeted to each program or function in determining risk assessment, was to identify how much effect one program or function has on another program or function, thereby identifying the total impact that a particular division has on the Agency. These inquiries were standardized to achieve responses to basic questions concerning each division or function. Questions asked related to business objectives, inputs, outputs, systems, critical factors, process activities and business risks and controls. An assessment of the function's risk was also included, based on our inquiries.

In planning internal audit procedures, financial, operational, as well as compliance issues are considered in determining processes/systems of interest. Functional areas that cross many divisions and the interaction between divisions are key criteria in the process of identifying areas of interest. Agency financial reports, planning documents, laws, rules, and regulations, in addition to soliciting input from management, were all considered in developing the list of areas of interest. Upon completion of this list, each area was subjected to our risk analysis process.

The following Agency processes/systems have been considered during the development of the areas of interest list:

Information Systems – Security  
Information Technology System Development  
Performance Measures Reporting  
Program Records Management  
    Entry Permits (e & VS1-27), Hold Orders, Quarantines, and Releases  
Field Operations Management: Market Contracts, Inspections  
Emergency Management Process: Policies and Procedures  
Consumable Supplies Inventory Controls  
State-Federal Laboratory: Disease Testing Documentation:  
Budgeting Process  
Region 1 Office (Amarillo, TX)

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Region 2 Office (Hempstead, TX)  
Region 3 Office (Ft. Worth, TX)  
Region 4 Office (Mt. Pleasant, TX)  
Region 5 Office (Beeville, TX)  
Region 6 Office (Lampasas, TX)  
Region 7 Office (Rockdale, TX)  
Region 8 Office (Laredo, TX)  
Information Systems: Business Continuity  
Cash Disbursements (including Payroll)  
Cash Receipts and Fee Processing  
Personnel Processes  
Public Information  
Legal and Compliance  
Intergovernmental/Industry Relationships  
Fixed Assets  
Federal Funds Management

There are numerous other areas that may be identified during the process of performing internal audit procedures during the fiscal year. Continuing input from both the commissioners and management will be essential in identifying additional or new areas of risk that should be considered in the future.

Our risk assessment was performed through the consideration of various factors, including:

1. Exposure Level
2. Complexity of Unit
3. Budgeted Revenues and Expenditures
4. Results of Last Audit
5. Extent of other Coverage or Oversight
6. Quality of Internal Controls/Adherence to Laws
7. Changes in Systems and Processes
8. Normal Audit Interval

Although all of the above factors were considered in the assessment of risk for each process/system, some of the factors were weighed more heavily and considered to be more critical to the Agency's internal control structure. The following critical factors were weighted more heavily in our assessment.

- Exposure Level
- Quality of Internal Controls/Adherence to Laws
- Changes in Systems and Processes

The other factors noted are not considered to be as critical to the internal control structure of the Agency. However, all factors were considered in assessing risk and were taken into consideration for each process/system as to their impact on the Agency. Once each area of interest was evaluated, it was assigned a risk factor of high, moderate or low. The following is the result of our risk assessment process.

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Processes Identified as High Overall Risk

Region 3 Office (Ft. Worth, TX)  
Region 2 Office (Hempstead, TX)  
Personnel Processes

Processes Identified as Moderate Overall Risk

Information Systems – Security  
State-Federal Laboratory: Disease Testing Documentation  
Cash Disbursements (including Payroll)  
Region 8 Office (Laredo, TX)  
Performance Measures Reporting  
Region 5 Office (Beeville, TX)  
Budgeting  
Legal and Compliance  
Region 4 Office (Mt. Pleasant, TX)  
Information Systems: Business Continuity  
Information Technology System Development  
Emergency Management Process: Policies and Procedures  
Region 6 Office (Lampasas, TX)  
Public Information  
Cash Receipts and Fee Processing  
Intergovernmental/Industry Relationships  
Region 7 Office (Rockdale, TX)  
Program Records Management  
Region 1 Office (Amarillo, TX)  
Field Operations Management: Market Contracts, Inspections  
Fixed Assets (Austin Central Office)  
Consumable Supplies Inventory Controls

Processes Identified as Low Overall Risk

Federal Funds Management

**IV. Internal Audit Plan**

The internal audit plan is designed to provide a review of all areas considered risky. Although the plan is structured in this manner, it should not prevent the review of areas on a more frequent basis, in the case of future restructuring or development of new processes/systems. Also, special reviews might be added in the future as requested by the Commissioners or when deemed necessary by the internal audit function after performance of in-depth review of the specific divisions/systems.

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Internal audit activities will be primarily concerned with documenting, testing and evaluating each division or system's internal control policies and procedures and the quality of performance in carrying them out. This will include reporting conditions and suggestions to management and evaluating management's response and plans for corrective actions. Opportunities for improved efficiency identified as a result of performing internal audit activities will be communicated to management and the Commissioners as part of the reporting process.

Internal Audit activities for the fiscal years ending 2015 - 2016 are planned for the following processes/systems, respectively:

<u>Fiscal Year 2017</u>	<u>Estimated Hours</u>
Region 3 Office (Ft. Worth, TX)	180
Region 2 Office (Hempstead, TX)	180
Follow-up on Prior Internal Audit Recommendations (FY 2015)	160
Total Hours	<u>520</u>

<u>Fiscal Year 2018</u>	<u>Estimated Hours</u>
Personnel Processes	140
Region 8 Office (Laredo, TX)	180
Information Systems - Security	140
Follow-up on Prior Internal Audit Recommendations (FY 2016)	140
Total Hours	<u>600</u>

The audits for fiscal year 2017 will take place between January 2017 and August 2017 with final reporting occurring in September 2017. The audits for fiscal year 2018 will take place between September 2017 and August 2018 with final reporting occurring in September 2018. The above plan does not preclude the internal audit function from identifying and assessing risk relating to new divisions or systems added to the Agency.

These processes/systems were identified for review through risk assessment methodology. As discussed above, this methodology included surveying key personnel of the Agency, identifying financial and non-financial risks, identifying interaction of divisions amongst each other, identifying rules and regulations the various functions must comply with, identifying the volume of transactions and personnel involved within each function.

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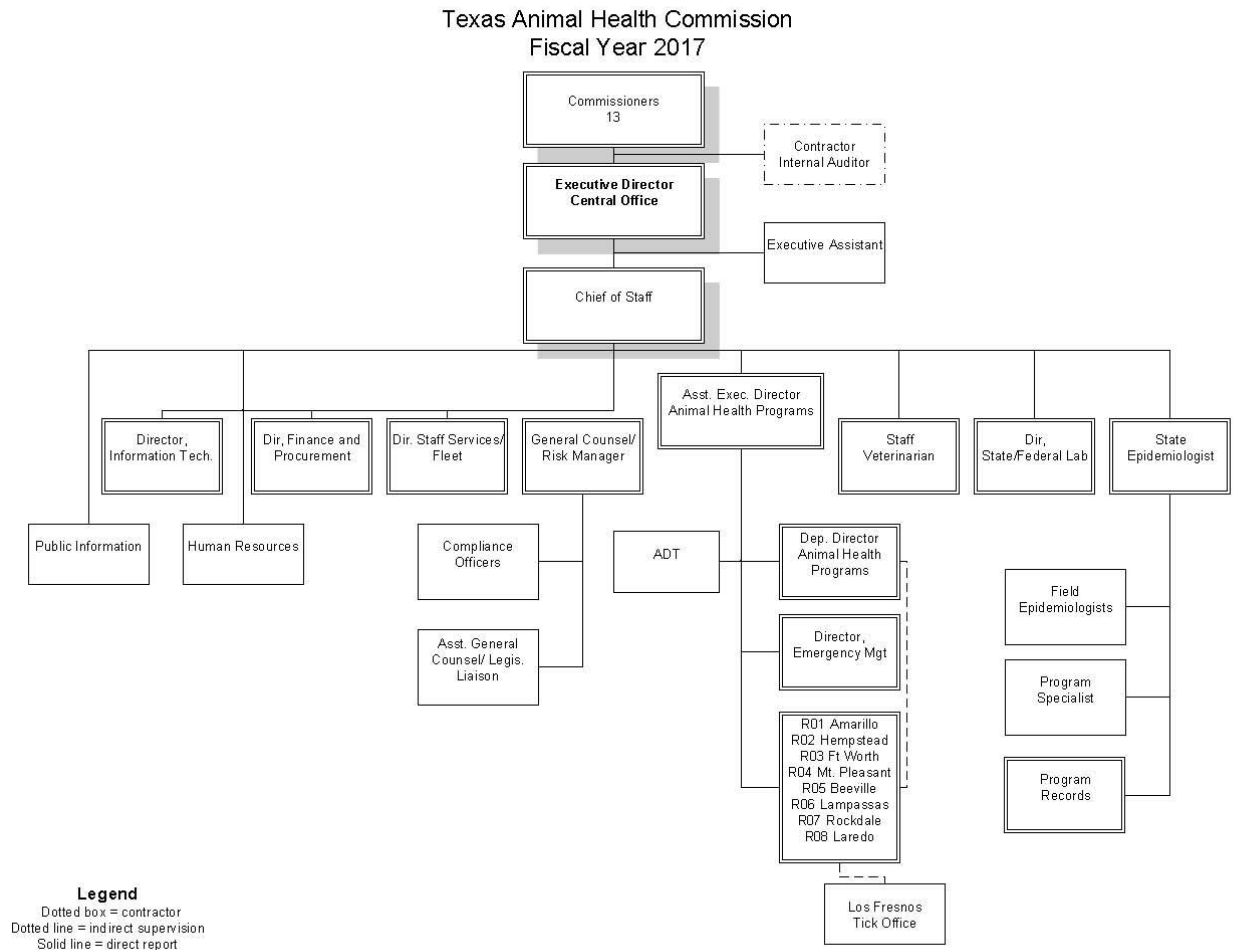
**V. Reporting**

In compliance with the Texas Internal Auditing Act, the annual internal audit report will be filed with the Governor, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor, the Commissioners of the Agency and the Agency's Executive Director by November 1, 2017 and 2018, respectively. The annual internal audit report will be in the form specified by the State Auditor and will include all relevant items noted in the Texas Internal Auditing Act.

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### Appendix A: Organizational Chart



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**Appendix B: Risk Assessment Summary**

High = 38 and up  
Moderate = 30-37  
Low = less than 30

Region 3 Office (Ft. Worth, TX)	39
Region 2 Office (Hempstead, TX)	39
Personnel Processes	39
Information Systems – Security	37
State-Federal Laboratory: Disease Testing Documentation	36
Cash Disbursements (including Payroll)	36
Region 8 Office (Laredo, TX)	35
Performance Measures Reporting	35
Region 5 Office (Beeville, TX)	35
Budgeting	35
Legal and Compliance	34
Region 4 Office (Mt. Pleasant, TX)	34
Information Systems: Business Continuity	34
Information Technology System Development	34
Emergency Management Process: Policies and Procedures	34
Region 6 Office (Lampasas, TX)	34
Public Information	34
Cash Receipts and Fee Processing	33
Intergovernmental/Industry Relationships	33
Region 7 Office (Rockdale, TX)	32
Program Records Management	32
Region 1 Office (Amarillo, TX)	32
Field Operations Management: Market Contracts, Inspections	32
Fixed Assets (Austin Central Office)	30
Consumable Supplies Inventory Controls	30
Federal Funds Management	29

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