



John Keel, CPA
State Auditor

An Audit Report on

The Board of Professional Engineers: A Self-directed, Semi- independent Agency

March 2012

Report No. 12-025



John Keel, CPA
State Auditor

An Audit Report on

The Board of Professional Engineers: A Self-directed, Semi-independent Agency

SAO Report No. 12-025
March 2012

Overall Conclusion

The Board of Professional Engineers (Agency) accurately reported key financial statement account balances for fiscal year 2011, and its key financial controls were working effectively. In addition, the Agency transferred approximately \$7.8 million to the State's General Revenue Fund during fiscal year 2011, as required by Texas Civil Statutes, Article 8930.

The Agency had an adequate process for setting fees, and that process was based on the Agency's budgetary needs. Specifically, the Agency used its budget projection to determine the amount of revenues it would need to meet its operating expenditures. The Agency adjusts its fees, as necessary, to collect the desired amount of revenue. The Agency has not changed its licensing fees since March 2004. Its fiscal year 2011 ending fund balance was approximately \$1,177,800, which represented an increase of \$178,439 from its fiscal year 2008 ending fund balance.

Additionally, the Agency had processes for assessing administrative penalties, and those processes helped ensure that the Agency accurately calculated and consistently applied administrative penalties in accordance with the Texas Administrative Code and the Texas Occupations Code.

The Agency reported accurate results in its reports to the Legislature, the Office of the Governor, the Office of the Comptroller of Public Accounts, the Legislative Budget Board, and the State Auditor's Office in fiscal years 2010 and 2011 for eight of the nine performance measures tested. Those performance measures were:

- Number of Complaints Filed.

Background Information

Texas Civil Statutes, Article 8930, (the Self-directed, Semi-independent Agency Project Act) authorized the Board of Professional Engineers (Agency) to operate independently of the General Appropriations Act. The Self-directed, Semi-independent Agency Project Act is subject to Chapter 325 of the Texas Government Code (the Texas Sunset Act). Unless continued in existence as provided by that chapter, the Self-directed, Semi-independent Agency Project Act expires on September 1, 2013.

The Agency is a regulatory agency that oversees the examination, registration, and regulation of professional engineers. As of August 31, 2011, the Agency regulated 55,267 engineers and employed 29 individuals.

The Agency adopts its own annual budget, which the Agency's governing board reviews and approves. It does not receive funds through the General Appropriations Act.

The Agency's current nine-member governing board is appointed by the Governor and confirmed by the Texas Senate. The governing board is composed of six engineers and three members who represent the public.

- Average Length of Time Required to Resolve a Complaint.
- Number of Complaints Resolved.
- The Number of Complaints Resulting in Disciplinary Action.
- Number of Cases Closed By Action Taken.
- Number of Examination Candidates.
- Number of Licenses.
- Number of Certificate Holders.

The Agency reported inaccurate results for Number of Enforcement Activities Pending Cases. (See Chapter 3, Appendix 2, and Appendix 4 for more information on the performance measures results.)

While the Agency fully implemented three prior audit recommendations to improve its process for reporting performance measure results, additional opportunities exist for the Agency to strengthen certain processes for calculating and reporting performance measures to help ensure continued reporting accuracy.

Auditors communicated other, less significant, issues to Agency management separately in writing. Those issues were related to the Agency's policies and procedures for cash management, travel guidelines, accounts receivables, and budget process.

Summary of Management's Response

The Agency agreed with the recommendations in this report. The Agency's detailed management responses are presented immediately following each set of recommendations in the Detailed Results section of this report.

Summary of Information Technology Review

Auditors performed a limited review of general and application controls over the information technology systems that the Agency used to manage and report financial data and performance measure data. Specifically, auditors reviewed:

- The Texas Informational Database for Engineers, which is the Agency's licensing, enforcement, and revenue database.
- The Financial Information System, which is the Agency's purchasing and receiving database.

- The Engineer's Cash Handling Online System, which is the Agency's Web-based application that allows individuals to apply online for licenses and renew licenses. That system also redirects individuals to the Agency's credit card processing vendor to make payments.

Auditors tested controls over user access, password security, edit checks, and error correction and determined that each information system reviewed had adequately designed controls to ensure the reliability of the data entered and processed. However, the Agency should strengthen certain user access controls to minimize the risk of inadvertent alteration or deletion of data, which would enhance the Agency's ability to ensure the integrity of its data. To minimize risks, auditors communicated details about the identified information technology weaknesses separately in writing to Agency management.

In addition, auditors reviewed user access controls over the Uniform Statewide Accounting System and the Uniform Statewide Payroll/Personnel System and determined that the data in those two systems was reliable for the purposes of this audit.

Summary of Objectives, Scope, and Methodology

The objectives of this audit were to:

- Verify the accuracy of certain key financial statement balances and the effectiveness of key financial controls at the Agency.
- Verify the accuracy of, and evaluate trends in, selected performance measures the Agency uses.
- Evaluate the Agency's process for setting fees and penalties.

The scope of this audit covered fiscal years 2010 and 2011. Auditors reviewed the accuracy of selected account balances of the Agency's financial statements for fiscal year 2011 and the control processes that affected the accuracy of the selected account balances. Auditors reviewed the accuracy of selected Agency-reported performance measures and related control processes for fiscal years 2010 and 2011. Auditors also reviewed the Agency's processes for setting fees and penalties and the automated systems and the processes that supported the functions reviewed.

The audit methodology included collecting information and documentation, performing selected tests and other procedures on the information obtained, analyzing and evaluating the results of tests, and conducting interviews with Agency management and staff.

Contents

Detailed Results

Chapter 1 The Agency Accurately Reported Key Financial Statement Account Balances for Fiscal Year 2011 and Had Effective Financial Control Processes and Procedures	1
Chapter 2 The Agency Had Adequate Processes for Setting Fees and Assessing Administrative Penalties	4
Chapter 3 The Agency Reported Accurate Results for Eight of the Nine Performance Measures Tested; However, the Agency Should Improve Certain Controls and Processes to Ensure Continued Accuracy.....	8
Chapter 4 The Agency Has Reasonable and Necessary Controls to Help Ensure That Its Information Technology System Data Is Reliable; However, It Should Strengthen Certain Information Technology Security Controls.....	16

Appendices

Appendix 1 Objectives, Scope, and Methodology	18
Appendix 2 Results for Selected Performance Measures Reported to the Legislature, the Office of the Governor, the Office of the Comptroller of Public Accounts, the Legislative Budget Board, and the State Auditor's Office	21
Appendix 3 Board of Professional Engineers' Licensing Fees.....	23

Appendix 4

Trend Analysis of Selected Performance Measures
Reported to the Legislature, the Office of the Governor,
the Office of the Comptroller of Public Accounts, the
Legislative Budget Board, and the State Auditor's Office..... 24

Appendix 5

Recent State Auditor's Office Work 26

Detailed Results

Chapter 1

The Agency Accurately Reported Key Financial Statement Account Balances for Fiscal Year 2011 and Had Effective Financial Control Processes and Procedures

The Board of Professional Engineers (Agency) accurately reported key financial statement balances for fiscal year 2011. The Agency transferred approximately \$7.8 million to the State's General Revenue Fund during fiscal year 2011 as required by Texas Civil Statutes, Article 8930, Sections 6(c) and 9. In addition, the Agency's key financial controls worked effectively to help ensure the accuracy of key financial statement account balances reported in the Agency's annual financial report.

The Agency accurately reported key financial statement account balances.

Auditors reviewed selected financial statement account balances and the ending fund balance reported in the Agency's annual financial report for fiscal year 2011. Specifically, auditors reviewed:

- Asset accounts representing 99.6 percent of the Agency's total assets.
- Payroll payable, accounts payable, and vouchers payable accounts representing 100 percent of the Agency's total liabilities.
- Revenue accounts representing 99.9 percent of the Agency's total revenue.
- Expenditure accounts representing 93.5 percent of the Agency's total expenditures.

Table 1 on the next page lists the fiscal year 2011 financial statement accounts that auditors reviewed.

Table 1

Financial Statement Accounts Reviewed by Auditors Balances as of August 31, 2011	
Assets	Reported Balance
Cash in State Treasury	\$ 188,499
Cash in Bank	\$ 73,430
Cash Equivalent - Miscellaneous Investments	\$ 1,090,864
Accounts Receivable	\$ 38,805
Liabilities	Reported Balance
Payroll Payable	\$ 185,904
Accounts Payable/Vouchers Payable	\$ 32,855
Revenues	Reported Balance
Licenses, Fees, and Permits	\$ 4,722,248
Expenditures	Reported Balance
Salaries and Wages	\$ 1,700,135
Payroll-related Costs	\$ 519,650
Travel	\$ 28,250
Materials and Supplies	\$ 164,252
Other Expenditures	\$ 1,567,061
Fund Balance ^a	Reported Balance
Fund Balance - Committed	\$ 1,172,839

^a The total fund balance for fiscal year 2011 is approximately \$1,177,800, which includes the fund balance-committed amount and non-spendable inventory of \$4,961.

Source: The Agency's unaudited annual financial report for fiscal year 2011.

The Agency transferred approximately \$7.8 million to the State's General Revenue Fund for fiscal year 2011 as statutorily required.

The Agency transferred approximately \$7.8 million to the State's General Revenue Fund for fiscal year 2011 as required by Texas Civil Statutes, Article 8930, Sections 6(c) and 9. Specifically, the Agency:

- Transferred approximately \$7.4 million in professional fee revenue to the State's General Revenue Fund for fiscal year 2011. Texas Civil Statutes, Article 8930, Section 9, requires the Agency to annually collect a \$200 professional fee from licensed engineers for remittance to the State's General Revenue Fund.¹

¹ Texas Occupations Code, Section 1001.206, allows for exemption from paying the \$200 professional fee for engineers who (1) claim exemption as employees of private corporations or a business entity; (2) claim exemption as employees of privately owned public utilities, cooperative utilities, or affiliates; (3) are individuals disabled with a mental or physical impairment that substantially limits their ability to earn a living as an engineer; (4) are individuals granted inactive status (a license holder on inactive status may not practice engineering); or (5) are individuals who are 65 years of age or older.

- Transferred \$373,900 to the State's General Revenue Fund for fiscal year 2011. Texas Civil Statute, Article 8930, Section 6(c), requires the Agency to annually transfer \$373,900 to the State's General Revenue Fund.

The Agency had effective key financial control processes and procedures.

The Agency's key financial control processes and procedures worked effectively to help ensure the accuracy of key financial account balances reported in the Agency's annual financial report. Specifically, the Agency had controls designed to:

- Accurately process the receipt and deposit of license and fee payments.
- Properly record and approve expenditures.
- Completely reconcile its financial records to third-party accounting statements.
- Appropriately segregate duties over revenue and expenditure transaction processing.

The Agency Had Adequate Processes for Setting Fees and Assessing Administrative Penalties

The Agency had an adequate process for setting fees that was based on its budgetary needs. It followed a reasonable methodology to ensure that its revenue, consisting primarily of licensing fees, adequately covered its operational costs. The Agency used its budget projections to determine the amount of revenues it would need to meet its operating expenditures. The Agency adjusts its licensing fees, if necessary, to collect the desired amount of revenue.

In addition, the Agency had processes that helped ensure it accurately calculated and consistently applied administrative penalties in accordance with the Texas Administrative Code and the Texas Occupations Code.

The Agency's Process for Setting Fees Was Adequate for Covering Its Operational Costs

The Agency's fee-setting process reasonably ensured that the fees it collected sufficiently met its operational needs. The Agency's fee-setting process is dependent on its budgetary needs. As part of the Agency's process, the Agency projects the revenue it needs based on the operational costs it projects when preparing its proposed annual budget. Information that the Agency considered in its projections included:

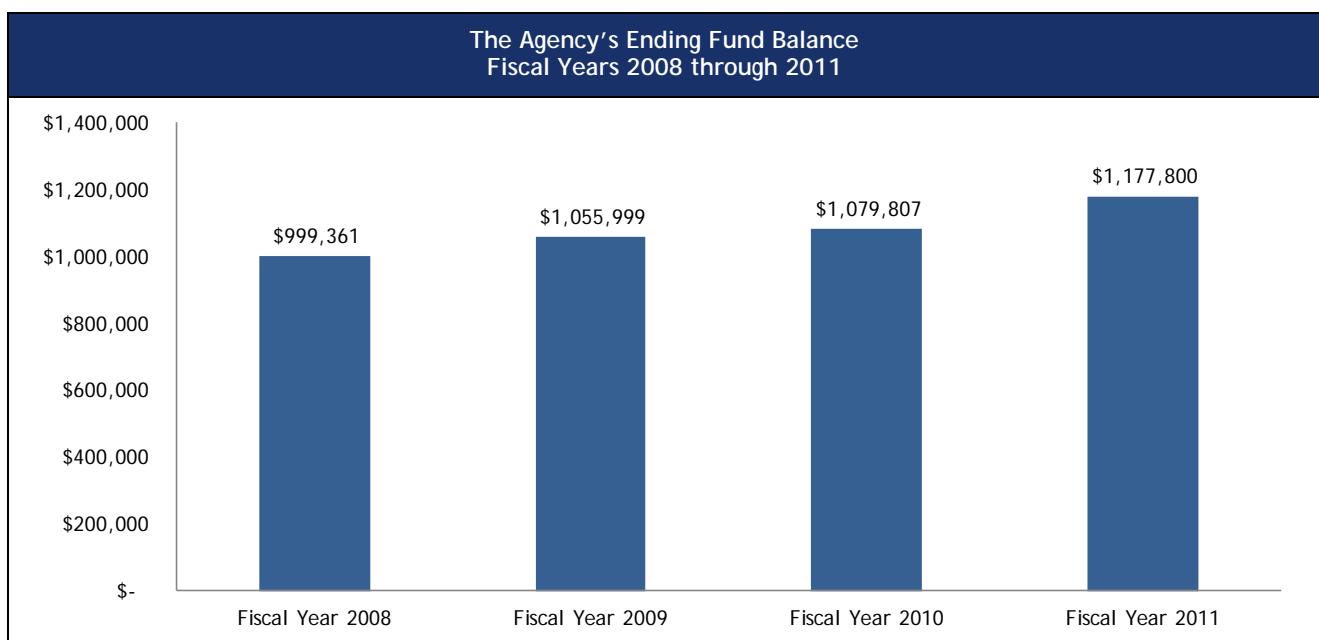
- Financial data for the current fiscal year.
- Analysis of historical revenue and expenditure data.
- Forecasts of anticipated expenditures.

Based on its proposed annual budget, the Agency may propose fee adjustments, if necessary, to collect the desired amount of revenue. The Agency's process for considering any proposed fee adjustment includes reviewing factors such as comparable licensing fees in other states, market factors, engineering graduation rates, and trends in the engineering trade. The Agency's proposed annual budgets, including proposed fee adjustments, are presented to the Agency's governing board. For fiscal year 2011, the Agency's governing board reviewed and approved the proposed annual budget during its August 2010 quarterly meeting. The Agency's governing board did not adopt any proposed fee adjustments to the Agency's fees. The Agency has not changed its fees since March 2004 (see Appendix 3 for more information on fees).

The Agency's fund balance has increased by \$178,439 (17.9 percent) since fiscal year 2008.

The Agency's fund balance at the end of fiscal year 2011 was approximately \$1,177,800, which represented a 17.9 percent increase from the Agency's fiscal year 2008 ending fund balance of \$999,361. Figure 1 shows the Agency's ending fund balance from fiscal year 2008 through fiscal year 2011.

Figure 1



Source: The Agency's unaudited annual financial reports for fiscal years 2008 through 2011.

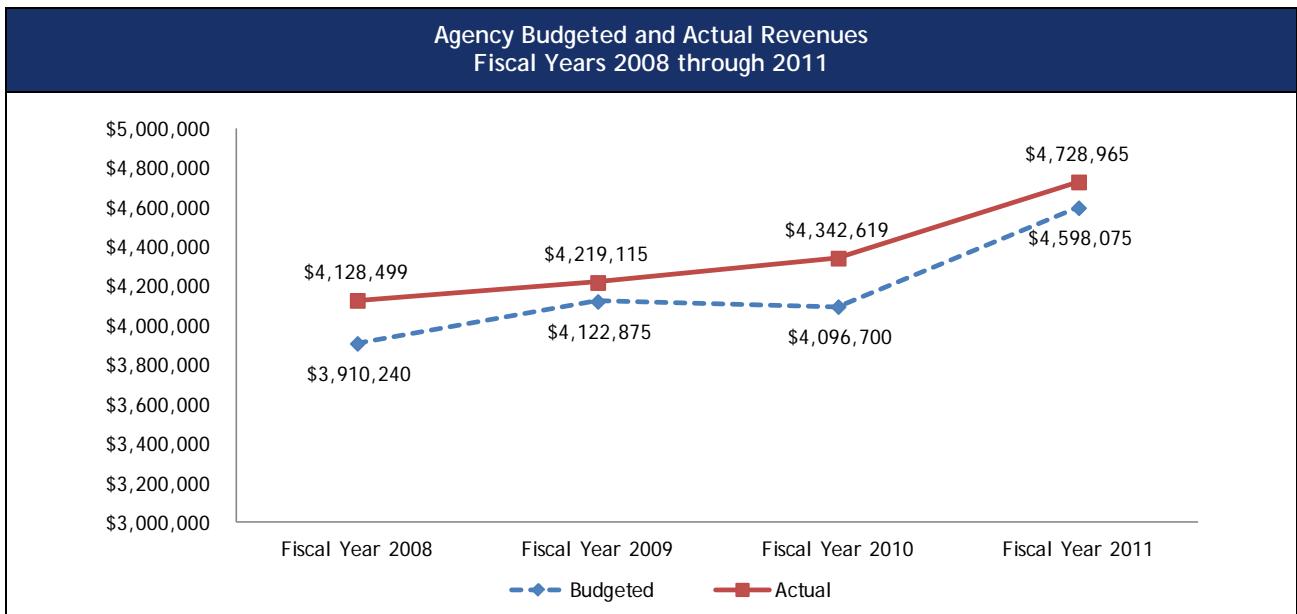
The Agency reported that the growth in its fund balance was the result of the following factors:

- **Conservative budgeting practices.** The Agency reported that annual expenditure projections were budgeted as close as possible to estimated foreseeable costs for the next fiscal year.
- **Cost-saving practices.** The Agency reported that it was able to spend less than projected by choosing to purchase lower-priced alternatives and by restructuring internal project time lines.
- **Growth in the number of new licenses.** The Agency reported that it has experienced larger-than-anticipated growth in the number of licenses issued. In spite of the growth, the Agency remained cautious when it projected revenues because of the uncertain economic conditions.

Auditors compared the Agency's approved annual budgets to its annual financial reports for fiscal years 2008 through 2011 and determined that the Agency's actual revenues and operating costs reasonably aligned with its

budget projections. Figure 2 compares the Agency's budgeted revenues to the actual revenues it reported in its annual financial reports for fiscal years 2008 through 2011.

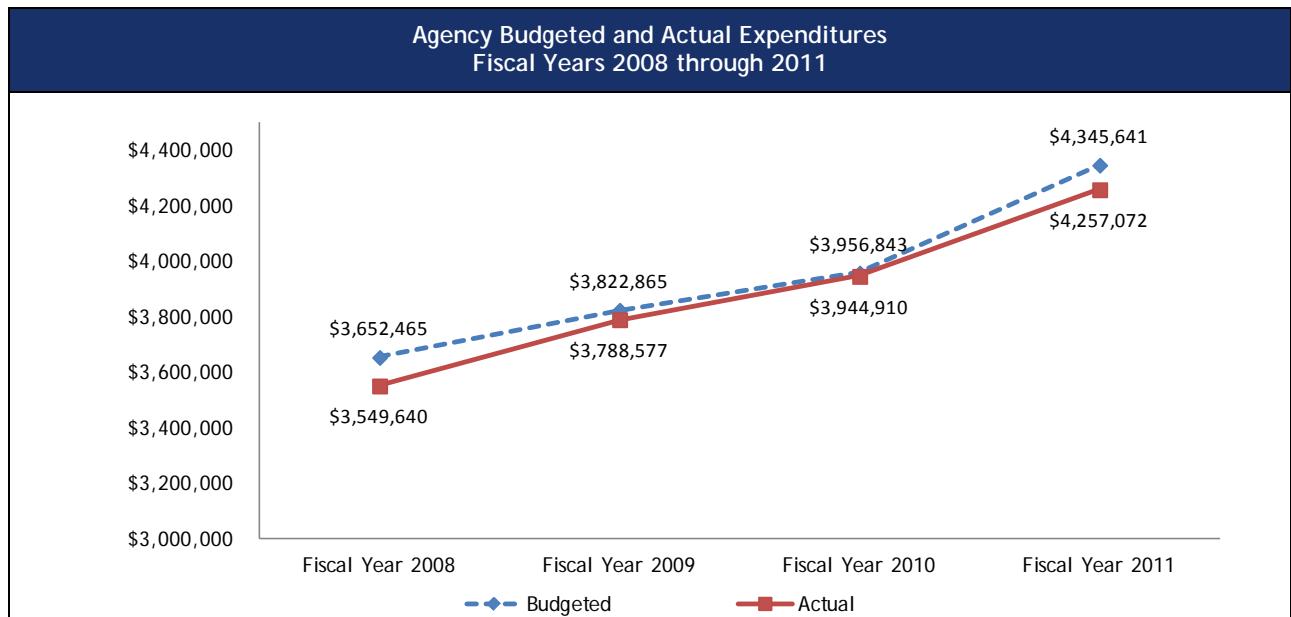
Figure 2



Source: The Agency's annual budgets and unaudited annual financial reports for fiscal years 2008 through 2011.

Figure 3 compares the Agency's budgeted expenditures to the actual expenditures it reported in its annual financial reports for fiscal years 2008 through 2011.

Figure 3



Source: The Agency's annual budgets and unaudited annual financial reports for fiscal years 2008 through 2011.

The Agency Assessed Administrative Penalties in Accordance with Statutory Requirements

The Agency had adequate processes for assessing, calculating, and applying administrative penalties in accordance with the Texas Administrative Code and the Texas Occupations Code (see text box for more information on the statutory requirements).

Factors the Agency Considers When Assessing Administrative Penalties

Title 22, Texas Administrative Code, Section 139.35, and Title 6, Texas Occupations Code, Section 1001.502, require the Agency to consider the following factors when assessing administrative penalties:

- Hazard to the health, safety, property, or welfare of the public.
- Seriousness of the acts or omissions related to the violation(s).
- Actual damage, physical or otherwise, caused by the violation(s).
- Economic harm to property or the environment caused by the violation.
- Severity of penalty necessary to deter future violations.
- Number of prior disciplinary actions taken against the respondent.
- Efforts or resistance to correct the violation.
- Any economic benefit gained through the violations.
- Other matters impacting justice and public welfare.
- Additional administrative costs.

The Agency's process for assessing administrative penalties for all enforcement disciplinary actions required the following:

- The Agency investigator identifies which Agency rules were violated. Based on the violation, the investigator recommends an administrative penalty amount as defined by the Texas Administrative Code.
- The director of compliance and enforcement, the deputy executive director, and the executive director review and approve the disciplinary actions and recommended administrative penalty. To do this, the director of compliance and enforcement may use an administrative penalty worksheet that includes the factors the Agency is required to consider when calculating an administrative penalty amount.
- The Agency presents the final disciplinary action, which includes the administrative penalties to be assessed, to the Agency's governing board for approval.

Auditors tested 9 (23.1 percent) of the 39 enforcement cases in which the Agency assessed administrative penalties in fiscal year 2011. For each enforcement case tested, the Agency accurately calculated the administrative penalty amount in accordance with the Texas Administrative Code and obtained the required approvals from Agency management and staff and the Agency's governing board. For fiscal year 2011, the Agency reported collecting \$50,550 in administrative penalties that were assessed against 37 individuals.²

² The Agency assessed administrative penalties for two enforcement cases in August 2011. The Agency reported that the payments for the penalties for those two enforcement cases were due in September 2011.

The Agency Reported Accurate Results for Eight of the Nine Performance Measures Tested; However, the Agency Should Improve Certain Controls and Processes to Ensure Continued Accuracy

The Agency reported accurate performance measure results to the Legislature, the Office of the Governor, the Office of the Comptroller of Public Accounts (Comptroller's Office), the Legislative Budget Board, and the State Auditor's Office for eight of the nine performance measures tested.

To ensure continued accuracy, the Agency should improve certain controls and processes for calculating and reporting performance measure results. Specifically:

- The Agency calculated three of the performance measures tested using a methodology that was different from the methodology described in the Agency's strategic plan.
- The Agency did not have documented policies and procedures that described the performance measure definition or calculation methodology for two performance measures.
- Documentation for 4 (13.8 percent) of 29 closed enforcement cases did not support the case close date recorded in the Agency's licensing, enforcement, and revenue database. The Agency uses the case close date to calculate the Number of Complaints Resolved and Average Length of Time Required to Resolve a Complaint.
- The Agency did not report the performance measure Disciplinary Actions Taken in its 2009-2010 report to the Legislature, the Office of the Governor, and the Legislative Budget Board as stated in its policy and procedures. Instead, the Agency reported results for Number of Enforcement Activities Pending Cases.

The Agency fully implemented three prior audit recommendations for improving its process for reporting performance measure results.

In addition, auditors reviewed trends for the eight accurate performance measures for applicable fiscal year periods reported to the Legislature, the Office of the Governor, the Comptroller's Office, the Legislative Budget Board, and the State Auditor's Office (see Appendix 4 for more information).

The Agency Reported Accurate Results for Eight of Nine Performance Measures Tested

In its reports to the Legislature, the Office of the Governor, the Comptroller's Office, the Legislative Budget Board, and the State Auditor's Office in fiscal years 2010 and 2011, the Agency reported accurate results for the following eight performance measures tested (see text box for more information on the Agency's statutory reporting requirements):

Statutory Reporting Requirements

The Agency is statutorily required to periodically report the results for certain performance measures. Specifically:

- Texas Occupations Code, Section 1001.254(b), requires the Agency to include in its annual financial report a statistical analysis of the complaints filed with the Agency during the preceding year.
- Texas Civil Statutes, Article 8930, Section 8(a)(4), requires the Agency to submit a report to the Legislature and Office of the Governor by the first day of each regular legislative session describing the Agency's activities in four categories, which include performance measures, for the previous biennium. The biennial report includes the following performance measures:
 - ◆ Number of Examination Candidates.
 - ◆ Number of Licensees.
 - ◆ Number of Certificate Holders.
 - ◆ Number of Enforcement Activities.

- Number of Complaints Filed.
- Average Length of Time Required to Resolve a Complaint.
- Number of Complaints Resolved.
- The Number of Complaints Resulting in Disciplinary Action.
- Number of Cases Closed By Action Taken.
- Number of Examination Candidates.
- Number of Licenses.
- Number of Certificate Holders.

While auditors' recalculations of the performance measure results identified differences between the reported results and the actual results, those differences were less than 5.0 percent. A performance measure is considered accurate if the variance between the reported results and the actual results is 5.0 percent or less.³

The Agency reported inaccurate results for Number of Enforcement Activities Pending Cases.

In its annual financial report for fiscal year 2011, the Agency reported inaccurate results for Number of Enforcement Activities Pending Cases as of August 31, 2010. Auditors determined that a difference of more than 5.0 percent existed between the reported results and the actual results. The Agency reported 222 pending cases; however, the actual amount for pending cases was 195 pending cases (a 13.8 percent difference).

The reason for the inaccuracy was that the Agency reported the Number of Enforcement Activities Pending Cases as of August 31, 2008, instead of

³See *Guide to Performance Measure Management* (State Auditor's Office Report No. 06-329, August 2006) for more information.

August 31, 2010. The Agency also did not document a performance measure definition or calculation methodology for reporting the results for that performance measure (see Chapter 3-B for more information on the Agency's need to improve documentation).

Recommendation

The Agency should develop and implement procedures to verify that it reports performance measure results for the correct fiscal year.

Management's Response

The performance measure in question was a transcription error, replacing accurate results from one year with those of another. The agency has revised and implemented its reporting review process to ensure that performance measures will be verified and accurately reported. This item is complete.

Chapter 3-B

The Agency Should Strengthen Certain Controls and Processes for Calculating and Reporting Performance Measure Results

The Agency complied with its statutory requirements for reporting certain performance measure results, and it fully implemented three prior audit recommendations⁴ for improving its process for reporting performance measure results (see Chapter 3-C for more information on the implementation status). However, opportunities exist for the Agency to strengthen certain processes for calculating and reporting performance measures to help ensure that it continues to accurately report performance measure results to the Legislature, the Office of the Governor, the Comptroller's Office, the Legislative Budget Board, and the State Auditor's Office.

The Agency calculated certain performance measures using a methodology that was different from the methodology described in the Agency's strategic plan.

According to the Agency, its strategic plan defines how performance measure results should be calculated and reported. However, the Agency calculated three of the performance measures tested using a methodology that was different from the methodology described in the Agency's strategic plan. Those three performance measures were:

- Average Length of Time Required to Resolve a Complaint. In its annual financial report for fiscal year 2011, the Agency calculated the number of days based on the date on which the complaint was entered into the licensing,

⁴ See *An Audit Report on the Board of Professional Engineers: A Self-directed, Semi-independent Agency* (State Auditor's Office Report No. 09-042, June 2009).

enforcement, and revenue database. However, the strategic plan states that the performance measure should be calculated based on the date on which the Agency received the complaint. Auditors compared the two methodologies and identified differences in the calculated number of days that ranged from 1 day to 17 days in 28 (96.6 percent) of 29 complaints tested. However, the Agency consistently calculated the number of days it reported in its annual financial report based on the date the complaint was entered into the licensing, enforcement, and revenue database. As a result, the Agency's reported number of days and actual number of days each totaled 85 days, which was considered accurate.

- **Number of Cases Closed by Action Taken.** In its annual financial report for fiscal year 2011, the Agency calculated the results for this performance measure based on the total number of disciplinary actions the Agency took against

Disciplinary Actions

In its fiscal year 2011 annual financial report, the Agency reported the number of complaint cases it closed according to the following categories:

- Cease and desist.
- Informal reprimand.
- Formal reprimand.
- Probated suspension.
- Suspension.
- Refusal to renew license.
- Revocation.
- Ethics course.
- Administrative penalty.
- Other.

Source: The Agency's unaudited annual financial report for fiscal year 2011.

all individuals (licensed and unlicensed individuals) as of August 31, 2011. The strategic plan states that this performance measure should be calculated based only on disciplinary actions the Agency has taken against licensed individuals during the reporting period. In addition, the Agency inaccurately reported on 1 of the 10 actions it took to close a case (see text box for more information on the type of actions the Agency took). The Agency reported that it took 13 cease and desist actions as of August 31, 2011; however, the actual number of cease and desist actions was 9 (a 44.4 percent difference). Because the Number of Cases Closed by Action Taken is based on all actions the Agency has taken, the difference between the reported amount of 91 cases for this performance measure and the actual amount of 87 cases was 4.6 percent. Because the difference was less than 5.0 percent, this performance measure's reported result was considered accurate.

- **Number of Licenses.** The number of licenses reported for this performance measure in the Agency's 2009-2010 report was calculated based on the number of licensees at the end of the fiscal year, which was August 31, 2010. However, the strategic plan states that the performance measure should be calculated based on the count of licensees at the start of a reporting period. In addition, the Agency reported that it had issued 52,360 licenses for fiscal year 2010, which was the result for fiscal year 2009. The actual number of licenses for fiscal year 2010 was 53,668 (a 2.4 percent difference). Because the difference between the reported amount and the actual amount was less than 5.0 percent, this performance measure was reported as accurate.

If the Agency does not consistently follow its strategic plan to calculate performance measure results, the Agency could report inaccurate performance measure results to decision-makers.

The Agency did not have documented policies and procedures to describe the performance measure definition and it did not have a calculation methodology for two performance measures reported in its 2009-2010 report to the Legislature, the Office of the Governor, and the Legislative Budget Board.

The Agency did not document the performance measure definition and the calculation methodology that it followed to calculate (1) Number of Enforcement Activities Pending Cases and (2) Number of Certificate Holders. The lack of a documented definition and methodology increases the risk that the Agency may report inconsistent or inaccurate performance measure results.

The Agency did not consistently maintain documentation necessary to support the closed date for enforcement cases recorded in its licensing, enforcement, and revenue database.

The Agency's documentation did not support the closed date recorded in its licensing, enforcement, and revenue database for 4 (13.8 percent) of 29 enforcement cases tested. Specifically:

- Three enforcement case records included a closing date that was different from the closing date recorded in its licensing, enforcement, and revenue database.
- One enforcement case recorded did not have supporting documentation for the closing date entered in the Agency's licensing, enforcement, and revenue database.

The Agency uses the closed date for enforcement cases to calculate the results for (1) Average Length of Time Required to Resolve a Complaint and (2) Number of Complaints Resolved. If the Agency does not maintain documentation to support the closed dates entered into its licensing, enforcement, and revenue database, the Agency cannot ensure the accuracy of results reported to decision-makers for those two performance measures.

The Agency did not report the performance measure Disciplinary Actions Taken in its 2009-2010 report to the Legislature, the Office of the Governor, and the Legislative Budget Board.

Performance Measures to Be Reported

The Agency's policies and procedures state that it will include in its biennial reports to the Legislature and the Office of the Governor results for the following performance measures:

- Number of Individuals Examined.
- Individuals Licensed - Total Number.
- Engineer-In-Training Certificates- Total Number.
- Cases Opened from the Public.
- Complaints Resolved - Internal and External.
- Disciplinary Actions Taken.

The Agency did not consistently follow the description in its policies and procedures of the performance measures that it would report in its 2009-2010 report to the Legislature, the Office of the Governor, and the Legislative Budget Board. Specifically, the Agency's policies and procedures, dated 2004, stated that the Agency would report results for six performance measures (see text box). One of those performance measures was Disciplinary Actions Taken. However, in its 2009-2010 report, the Agency instead reported results for Number of Enforcement Activities Pending Cases. The Agency reported that it did not update its policies and procedures to reflect changes in the performance measures it reports in its biennial report. If the Agency's policies and procedures are not accurate in describing the performance measures it reports to the Legislature, the Office of the Governor, and the Legislative Budget Board, it may

report inaccurate or inconsistent performance measure results to decision-makers.

Recommendations

The Agency should:

- Apply the methodology in its strategic plan to calculate performance measure results.
- Document the performance measure definition and the calculation methodology for (1) Number of Enforcement Activities Pending Cases and (2) Number of Certificate Holders.
- Develop and implement a process to verify that the case closed date recorded in its licensing, enforcement, and revenue database matches supporting documentation.
- Verify that its policies and procedures for developing the biennial report for the Legislature, the Office of the Governor, and the Legislative Budget Board include the performance measures that it intends to report.

Management's Response

The Strategic Plan performance measures definitions have historically been considered a snapshot of the definitions at the time of the report. The agency uses official working definitions to calculate the measures which are documented on our internal Wiki pages. This approach has given us the flexibility to change the definitions as the need arose, utilizing appropriate process documentation procedures. With this feedback, we will change our process and ensure that the 2013-2017 Strategic Plan publication aligns with current internal measure definitions, and if there are reasons to change the definition, we will document that in our Wiki.

Performance measure definitions have been documented for the number of Engineer in Training certificates and the number of pending enforcement cases. This item is complete.

The compliance and enforcement case closing documentation process has been reviewed and revised to ensure the correct case closing date is recorded in our internal database. This item is complete.

Documented procedures for compiling the biennial report as described in Vernon's Civil Statutes 8930 have been modified to include the required performance measures. This item is complete.

The Agency Fully Implemented Three Prior Audit Recommendations Related to Performance Measures

The Agency fully implemented three prior audit recommendations for improving its processes for reporting performance measures data. Auditors did not follow up on one recommendation⁵ because it was outside the audit scope; however, the Agency self-reported that it fully implemented that recommendation. Table 2 lists the Agency's implementation status for the three prior audit recommendations in *An Audit Report on the Board of Professional Engineers: A Self-directed, Semi-independent Agency* (State Auditor's Office Report Number 09-042, June 2009) that auditors tested.

Table 2

Status of Implementation of Prior Audit Recommendations		
Recommendation	Implementation Status	Auditor Comments
The Agency should continue to include a statistical analysis of complaints as supplemental information to its annual financial report as required by the Texas Occupations Code, Section 1001.254.	Fully Implemented	The Agency included a statistical analysis of complaints as supplemental information to its fiscal year 2011 annual financial report.
The Agency should maintain sufficient supporting documentation for its reported performance measures, including the original data extracted from the performance measure queries, in its internal database that supports the measures reported.	Fully Implemented	The Agency maintained the documentation necessary to support its reported performance measures, including the original calculated reports extracted by performance measure queries.
The Agency should implement a documented, secondary review of the accuracy of its performance measure calculations.	Fully Implemented	The Agency maintained documentation of its secondary reviews of its performance measure calculations.

⁵ The June 2009 audit report also recommended that the Agency clarify, document, and implement consistent procedures for calculating performance measures to ensure that the procedures it uses to calculate voluntarily submitted quarterly performance measures are the same procedures it uses to calculate annually and biennially submitted performance measures. The Agency self-reported the implementation status of that recommendation as fully implemented on November 5, 2009. Auditors did not follow up on that recommendation because the scope for the current audit was on the Agency's statutory reporting requirements for performance measures.

The Agency Has Reasonable and Necessary Controls to Help Ensure That Its Information Technology System Data Is Reliable; However, It Should Strengthen Certain Information Technology Security Controls

The Agency's information technology system controls provided reasonable assurance of the reliability of data used for financial accounting and performance measure reporting. Auditors reviewed three key information technology systems the Agency used to manage data reported. Specifically, auditors reviewed:

- The Texas Informational Database for Engineers, which is the Agency's licensing, enforcement, and revenue database. The Agency generates data for performance measure reports from this system.
- The Financial Information System, which is the Agency's purchasing and receiving database.
- The Engineer's Cash Handling Online System, which is the Agency's Web-based application that allows individuals to apply online for licenses and renew licenses. This system also redirects individuals to the Agency's credit card processing vendor to make payments.

Auditors tested controls over user access, password security, edit checks, and error correction and determined that each information system examined contained adequately designed controls to ensure the reliability of data entered into and processed by the system. However, certain user access controls should be strengthened to minimize the risk of inadvertent or unauthorized alteration or deletion of data. Specifically:

- **User access.** Auditors identified four user accounts for current Agency employees that had access rights that did not appear reasonable based on the users' current job duties. In addition, the Agency did not have policies and procedures for ensuring that personnel have the appropriate access rights to data in its information systems. The lack of policies and procedures increases the risk that a user could be given inappropriate permissions to modify or delete data.
- **Password controls.** Auditors identified weaknesses in the Agency's password controls over certain information systems. To minimize risks, auditors communicated the details of the identified weaknesses separately in writing to Agency management.
- **Information system policies and procedures.** The Agency lacked policies and procedures to help ensure that manual edits that Agency employees perform on credit card transaction records in its licensing, enforcement, and revenue database are appropriate and properly authorized.

After auditors brought the information technology security weaknesses discussed above to the Agency's attention, the Agency reported that it took actions to correct the identified weaknesses in user access and password controls during the course of the audit.

Recommendations

The Agency should

- Determine that each user's access rights is appropriate to the user's job responsibilities and document its process for demonstrating that management has authorized the user's access rights.
- Strengthen its information systems password requirements to comply with industry best practices.
- Develop and document policies and procedures to help ensure that credit card records manually added to its licensing, enforcement, and revenue database are properly authorized and that any records added are accurate and complete.

Management's Response

The agency has developed and implemented an authorization process for our primary database application TIDE (Texas Informational Database of Engineers). This process includes documentation on the internal agency Wiki, a request form for managers to request access rights for new hires, and a process to request changes to employee access rights. The IT/Communications Director will review and approve all requests. This item is complete.

The online payment system ECHO (Engineers Cash Handling Online) has been modified to require stronger passwords from all users. This item is complete.

The IT and financial services teams collaborated and implemented a reconciliation process for any corrections necessary due to credit card transaction inaccuracies. This process has been documented on the internal agency Wiki and includes an authorization form. This item is complete.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Verify the accuracy of certain key financial statement balances and the effectiveness of key financial controls at the Board of Professional Engineers (Agency).
- Verify the accuracy of, and evaluate trends in, selected performance measures the Agency uses.
- Evaluate the Agency's process for setting fees and penalties.

Scope

The scope of this audit covered fiscal years 2010 and 2011. Auditors reviewed the accuracy of selected account balances of the Agency's financial statements for fiscal year 2011 and the control processes that affected the accuracy of the selected account balances. Auditors reviewed the accuracy of selected Agency-reported performance measures and related control processes for fiscal years 2010 and 2011. Auditors also reviewed the Agency's processes for setting fees and penalties and the automated systems and the processes that supported the functions reviewed.

Methodology

The audit methodology included collecting information and documentation, performing selected tests and other procedures on the information obtained, analyzing and evaluating the results of tests, and conducting interviews with Agency management and staff. In addition, the methodology included performing a limited review of general and application controls over the information technology systems that the Agency used to manage and report financial data and performance measure data. In addition, auditors reviewed user access controls over the Uniform Statewide Accounting System (USAS) and Uniform Statewide Payroll/Personnel System (USPS).

Information collected and reviewed included the following:

- Agency-specific USAS reports and Texas Safekeeping Trust Company statements.
- Agency fiscal year 2011 expenditure and revenue data from USAS.

- Agency payroll data from the USPS.
- The Agency's annual financial reports for fiscal years 2007 through 2011.
- Agency fiscal year 2011 financial transactions.
- Agency expenditure and payable vouchers.
- Agency reconciliations for revenue collections.
- Data and supporting documents for selected performance measures.
- Agency policies and procedures.
- Reports required by Texas Civil Statutes, Article 8930, Sections 8(a) and 8(b) (Self-directed, Semi-independent Agency Project Act).
- The Agency's strategic plan for fiscal years 2011 through 2015.
- The Agency's 2011 approved annual budget and supporting documentation.
- Enforcement case records for opened, closed, and pending complaints for fiscal year 2011.
- Governing board meeting minutes for fiscal years 2009 through 2011.

Procedures and tests conducted included the following:

- Gaining an understanding of the Agency's overall control structure (control environment, control procedures, and accounting systems).
- Testing internal controls and selected significant accounts, including testing of detailed supporting documentation, to determine the accuracy of selected financial data in the Agency's annual financial report for fiscal year 2011.
- Testing selected performance measure data that the Agency reported annually and/or biennially to the Legislature, the Office of the Governor, the Office of the Comptroller of Public Accounts, the Legislative Budget Board, and the State Auditor's Office, and testing the internal controls over the processes that produced the data.
- Evaluating the Agency's annual budget-setting and fee-setting processes.
- Reviewing selected enforcement cases and administrative penalties to ensure that they complied with the guidelines established in the Texas Administrative Code and the Texas Occupations Code.

Criteria used included the following:

- Title 6, Texas Occupations Code, Chapter 1001 (Regulation of Engineering, Architecture, Land Surveying, and Related Practices).
- Title 1, Texas Administrative Code, Chapter 202 (Information Security Standards).
- Title 22, Texas Administrative Code, Chapters 131 (Organization and Administration) and 139 (Enforcement).
- Texas Civil Statutes, Article 8930 (Self-directed, Semi-independent Agency Project Act).
- The Agency's policies and procedures.
- *Guide to Performance Measure Management* (State Auditor's Office Report No. 06-329, August 2006).
- Government Finance Officers Association (GFOA) publications.

Project Information

Audit fieldwork was conducted from November 2011 through February 2012. We conducted this performance audit 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 audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Willie J. Hicks, MBA (Project Manager)
- Anna Howe (Assistant Project Manager)
- Frances Anne Hoel, CIA, CGAP
- Robert G. Kiker, CGAP
- LaTrice Levels
- Kenneth F. Wade, CPA, CIA, CGAP
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Sandra Vice, CIA, CGAP, CISA (Assistant State Auditor)

Appendix 2

Results for Selected Performance Measures Reported to the Legislature, the Office of the Governor, the Office of the Comptroller of Public Accounts, the Legislative Budget Board, and the State Auditor's Office

Table 3 summarizes the results for the performance measures tested that the Board of Professional Engineers (Agency) reported to the Legislature, the Office of the Governor, the Office of the Comptroller of Public Accounts, the Legislative Budget Board, and the State Auditor's Office.

Table 3

Board of Professional Engineers			
Description of Performance Measure	Reporting Period	Results Reported	Accuracy of Performance Measure Results Reported ^a
Performance Measures the Agency Reported in Its Annual Financial Report			
Number of Complaints Filed	2011	714	Accurate
Average Length of Time Required to Resolve a Complaint (Days)	2011	85	Accurate
Number of Complaints Resolved	2011	693	Accurate
The Number of Complaints Resulting in Disciplinary Action	2011	46	Accurate
Number of Cases Closed By Action Taken	2011	91	Accurate
Performance Measures the Agency Reported in Its 2009-2010 Report			
Number of Examination Candidates ^b			Accurate
	April 2009		
Fundamentals Exam		2,313	
Principles Exam		829	
Total Exams		3,142	
	October 2009		
Fundamentals Exam		2,029	
Principles Exam		1,257	
Total Exams		3,286	
	April 2010		
Fundamentals Exam		2,477	
Principles Exam		1,031	
Total Exams		3,508	
	October 2010		
Fundamentals Exam		2,082	
Principles Exam		1,351	
Total Exams		3,433	

Board of Professional Engineers			
Description of Performance Measure	Reporting Period	Results Reported	Accuracy of Performance Measure Results Reported ^a
Performance Measures the Agency Reported in Its 2009-2010 Report			
Number of Licenses ^c	2010		Accurate
Active Licenses		43,902	
Inactive Licenses		8,458	
Total Licenses		52,360	
Number of Certificate Holders ^d	2010	12,969	Accurate
Number of Enforcement Activities Pending Cases	2010	222	Inaccurate

^a A performance measure is considered accurate if the variance between the reported results and the actual results is 5 percent or less.
^b The Agency reported results for two types of exams: The Fundamentals of Engineering Exam (Fundamentals Exam) and the Principles and Practice of Engineering Exam (Principles Exam).
^c Senate Bill 277 (78th Legislature, Regular Session) created an "Inactive Status" that allowed a licensed engineer to remain registered with the Agency but not to offer or practice engineering.
^d The Agency defines the Number of Certificate Holders as the number of individuals registered as an engineer-in-training.

Board of Professional Engineers' Licensing Fees

Table 4 lists the Board of Professional Engineers' (Agency) fees for an individual to apply for a license (\$250 total), renew an existing license (\$235 total), or obtain an engineer-in-training certificate (\$15 total). The fees listed in Table 4 were in effect during fiscal year 2011. The Agency has not changed its fees since March 2004.

Table 4

The Board of Professional Engineers' Licensing Fees Fiscal Year 2011		
Fee Name	Description	Amount
Application Fee	The fee an individual pays to apply for a license.	\$50
Application Professional Fee	The fee that is statutorily required by Texas Civil Statutes, Article 8930, Section 9, and is paid by individuals applying for a license. The fee collected is sent to the State's General Revenue Fund. Certain individuals are exempt from paying this fee. ^a	\$200
License Renewal Fee	The annual fee licensed individuals pay to renew an existing license.	\$35
License Professional Fee	The annual fee that is statutorily required by Texas Civil Statutes, Article 8930, Section 9, and is paid by licensed individuals when renewing an existing license. The fee collected is sent to the State's General Revenue Fund. Certain individuals are exempt from paying this fee. ^a	\$200
Engineer-in-training Fee	The fee an individual pays to register as an engineer-in-training. The registration certificate expires eight years from the date of issuance and may be renewed.	\$15
^a Texas Occupations Code, Section 1001.206, allows for exemption from paying the \$200 professional fee for engineers who (1) claim exemption as employees of private corporations or a business entity; (2) claim exemption as employees of privately owned public utilities, cooperative utilities, or affiliates; (3) are individuals disabled with a mental or physical impairment that substantially limits their ability to earn a living as an engineer; (4) are individuals granted inactive status (a license holder on inactive status may not practice engineering); or (5) are individuals who are 65 years of age or older.		

Source: The Agency.

Appendix 4

Trend Analysis of Selected Performance Measures Reported to the Legislature, the Office of the Governor, the Office of the Comptroller of Public Accounts, the Legislative Budget Board, and the State Auditor's Office

Based on information provided by the Board of Professional Engineers (Agency), the trends in the performance measure results that the Agency reported for fiscal years 2009 through 2011 to the Legislature, the Office of the Governor, the Office of the Comptroller of Public Accounts, the Legislative Budget Board, and the State Auditor's Office are reasonable.

Table 5 shows the performance measure results for five selected performance measures reported in the Agency's annual financial report for fiscal years 2009 through 2011. The number of complaints that the Agency received and investigated decreased over the last three fiscal years. The Agency attributed the decrease to (1) an increase in the Agency's outreach efforts to licensed engineers, (2) improved availability of information on laws and rules to engineers and the public, and (3) factors related to the number of outstanding complaints and staffing resources available to manage and investigate complaints.

Table 5

Selected Performance Measures Reported in the Agency's Annual Financial Report Fiscal Years 2009 through 2011				
Description of Performance Measure	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011	Percent Change from 2009 to 2011
Number of Complaints Filed	850	764	714	-16.0
Average Length of Time Required to Resolve a Complaint (Days)	104	86	85	-18.3
Number of Complaints Resolved	870	771	693	-20.3
The Number of Complaints Resulting in Disciplinary Action	58	36	46	-20.7
Number of Cases Closed By Action Taken	104	70	91	-12.5

Source: The Agency's unaudited annual financial reports for fiscal years 2009 through 2011.

Table 6 on the next page shows the performance measure results related to licensing activities that the Agency reported in its 2007-2008 and 2009-2010 reports. The Agency experienced an increase in the number of examination candidates, the number of certificate holders, and the number of licenses issued. The Agency attributed the increases to two factors:

- Unemployed engineers wanting to improve their job marketability. The Agency reported that the economy has resulted in job losses that affect the

engineering industry. Unemployed, unlicensed engineers have an interest in becoming licensed engineers to improve their chances of re-employment.

- Increased student enrollment in higher education engineering programs. The Agency reported that it has identified an increase in the number of students enrolled in higher education engineering programs due to the belief that entry-level engineering positions in the oil and technology industries offer high starting salaries. The Agency reported that this has resulted in an increase in the number of engineering students that are taking required engineering examinations in pursuit of becoming licensed engineers.

Table 6

Selected Performance Measures Reported in the Agency's Biennial Reports to the Legislature, the Office of the Governor, and the Legislative Budget Board Fiscal Years 2007 through 2010				
Description of Performance Measure	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Number of Examination Candidates	5,099	5,937	6,170	6,794
Number of Licenses	Not Reported ^a	50,681	Not Reported ^a	52,360
Number of Certificate Holders	Not Reported ^a	12,091	Not Reported ^a	12,969

^a The Agency did not report results for the fiscal year.

Source: The Agency's 2007-2008 and 2009-2010 reports to the Legislature, the Office of the Governor, and the Legislative Budget Board.

Recent State Auditor's Office Work

Recent SAO Work		
Number	Product Name	Release Date
09-042	An Audit Report on the Board of Professional Engineers: A Self-directed, Semi-independent Agency	June 2009

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Harvey Hilderbran, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Board of Professional Engineers

Members of the Board of Professional Engineers

Dr. G. Kemble (Kem) Bennett, P.E., Chair
Dr. Daniel O. Wong, P.E., Vice Chair
Dr. Gary W. Raba, P.E., Secretary
Dr. Edward L. Summers, Treasurer
Mrs. Carry A. Baker
Mr. Lamberto Ballí, P.E.
Mr. James Greer, P.E.
Mr. Govind Nadkarni, P.E.
Mrs. Elvira Reyna
Mr. Lance Kinney, P.E., Executive Director



This document is not copyrighted. Readers may make additional copies of this report as needed. In addition, most State Auditor's Office reports may be downloaded from our Web site: www.sao.state.tx.us.

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9500 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government call the SAO Hotline: 1-800-TX-AUDIT.